

# Alabama lands German steel mill project



By **Tim Morris, NOLA.com|The Times-Picayune**

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**By Robert Travis Scott**

Capital bureau

BATON ROUGE -- Alabama has won out over Louisiana in the high-stakes competition for a 2,700-employee steel mill plant that will be built by ThyssenKrupp AG of Germany for \$3.7 billion.

The company's supervisory board made the decision this morning in Dusseldorf.

Backed by Alabama's huge incentive package, an industrial site north of Mobile was selected over a site near Convent on the Mississippi River in St. James Parish.

One of the largest private manufacturing investments in the United States in the past decade, the plant was a coveted project in terms of economic impact and international visibility.

"This was a very difficult decision," said Bob Soulliere, President and CEO of ThyssenKrupp Steel and Stainless USA, who was leading the selection process. "Louisiana made an excellent proposal and demonstrated many important and valuable attributes for business development. Gov. (Kathleen) Blanco and her team made a tremendous effort and the professional approach of officials in Louisiana made our decision all the more difficult. We thank the Louisiana state team for their hard work, dedication and commitment to the selection process."

The search began in February 2006 with 67 potential sites in 20 states. From the initial sites, ThyssenKrupp narrowed its search to locations in Alabama, Arkansas and Louisiana. In February of this year, the company announced that it was focused just on Alabama and Louisiana.

In a statement after the announcement, Blanco said it was a "tremendous honor" to be one of the two finalists for the project and "proves that Louisiana is moving forward with extraordinary momentum. Our success with this project demonstrates Louisiana has established a stronghold in the global economy and can successfully compete for world-class projects."

The company said Friday it would invest \$3.7 billion in the facility, up from the previously announced \$2.9 billion.

"The increased investment primarily results from a rise in both steel and stainless steel capacity, as well as the installation of additional equipment to allow further diversification of the product portfolio," a company statement said.

"The decision to select Alabama was made based on the criteria the company has been using in the site selection process," a company statement said. "Decisive factors included logistical considerations of the company's supply chain from Brazil to our projected customers; operating costs such as electricity and labor; and site-specific capital expenditures."

Louisiana officials said site-preparation and energy costs were a drawback for the state's proposal. The Alabama site is an industrial and residential area called Mount Vernon.

"Due to its high cost-efficiency, Mount Vernon is the ideal location," the company statement said.

Alabama Gov. Bob Riley said, "With this project, Alabama and ThyssenKrupp are making history. A project this size, with this amount of economic impact, comes along perhaps once in a generation. It is transformational, and we thank our partners at ThyssenKrupp, our state and local economic development team, and Alabama's outstanding workforce for making our success possible."

ThyssenKrupp Executive Board Chairman Ekkehard Schulz said, "This project is a central element of the group's strategy for the steel and stainless segments, aimed at achieving profitable growth in Europe and North America. It will considerably strengthen ThyssenKrupp's position in North America."

The construction phase will create as many as 29,000 jobs and the ripple effect over 20 years of operation would yield as many as 52,000 indirect jobs, the company has estimated.

The plant will produce steel slabs, carbon steel and rolled stainless steel for the auto, appliance and construction industries. The 150-acre factory will have a roof more than 15 times the size of the Superdome's lid.

Alabama will now enter final negotiations with ThyssenKrupp to complete the deal.

Alabama and Louisiana both offered incentives packages in the form of infrastructure improvements, tax breaks and job-training programs.

The 3,467-acre Alabama site is in northeast Mobile County and southeast Washington County, about 35 miles from downtown Mobile. There is a Tombigbee River dock on the facility. An existing Norfolk Southern rail line runs onto the site.

Unlike the St. James site, seagoing vessels cannot reach the Tombigbee dock, requiring deep-draft vessels instead to shift their cargo to barges at the Alabama State Docks near downtown Mobile. Alabama's chief counter to that disadvantage is stronger soil than the banks of Mississippi River offer in Louisiana, translating to a significantly lower initial construction cost along the Tombigbee.

The Alabama site also is more central to the southeastern United States' industrial base, particularly the automobile manufacturing plants and associated suppliers in Alabama, Mississippi, South Carolina, Tennessee and Georgia.

In the way of cash incentives, the Alabama Legislature recently approved a constitutional amendment to increase the borrowing limit of an economic development bonding authority by \$400 million, with state officials saying the money would be used to lure ThyssenKrupp and other industrial prospects to the state. The bonds would be paid off with royalties from natural gas harvested in state waters off the Alabama coastline.

The state has also earmarked \$900 million worth of Gulf Opportunity Zone bonds authorized by Congress. Designed to spur economic development in Gulf Coast states affected by the 2005 hurricanes, the GO Zone Act allows states to pass on government-rate, tax-free bonding authority to private industry. In this case, that means ThyssenKrupp could pay bond holders, but on the same terms as a state bond sale.

Still, the company's cash flow is so strong, it does not need to rely on the bond markets to pay for the plant, financial analysts say. The company has no debt and does not want to acquire any.

Alabama's most generous incentive is a capital investment tax credit that allows a company to reduce its state corporate income tax bill by an amount that is as much as 5 percent annually of its initial capital investment, with some equipment expenses not included. The credit is not refundable; meaning a company's maximum advantage in a given year is reducing its corporate income tax bill to zero. Still, a manufacturer that incurs enough tax liability could conceivably recoup 100 percent of its up-front investment.

The statutory perk is normally in effect for 20 years, but the Alabama Legislature recently extended the credit to 30 years for any company with an initial investment of at least \$2.5 billion and an initial payroll of 2,500 employees. The package also granted ThyssenKrupp a 10-year break on utility taxes and extended the usual decade of breaks on non-education property taxes to 20 years.

Local governments in Alabama also are allowed under state law to abate local property taxes and other levies. Published report in Alabama have also said local governments there are expected to pony up \$60 million in incentives, though it is not clear whether that is direct incentives in addition to tax breaks.

In the area of workforce development, the Alabama Industrial Development Training program became the first such state agency to earn certification from the International Organization for Standardization. The program, a function of the state's two-year college system, has enjoyed a mutually beneficial relationship with the burgeoning automobile industry in Alabama.

The Convent site's soft soil required thousands of deep-driven pilings and the location would have needed major improvements to roads, the port and power lines to accommodate the sprawling factory.

Although many details were kept secret during negotiations, Louisiana's total incentive package was close to \$2 billion. Gov. Kathleen Blanco won approval in the Louisiana House of Representatives Thursday for \$400 million that would be used to prepare the plant's infrastructure. Lawmakers say the governor also had pledged nearly twice that amount in additional incentives toward infrastructure and other purposes, money that would have been borrowed or appropriated by the Legislature from the state budget.

In addition, the state was offering to waive sales taxes on utilities and the plant would have been eligible for the state's Quality Jobs tax credits, incentives worth several hundred million dollars. A state job training program was also a significant cost factor.

The new steel plant will tie in to a steel slab plant the company is building in Brazil. Starting operations in 2009, the Brazilian plant will supply the cruder form of steel for further processing at ThyssenKrupp plants in Germany and at the proposed plant on the Gulf Coast.

The U.S. plant will include multiple mills producing the various types of steel and a melt shop able to make as much as 1 million metric tons of slabs annually, similar to the material made in the Brazilian plant.

The plant's supply and customer chain will be linked to take advantage of trade within the North American Free Trade Agreement area, the region from Canada to Mexico where ThyssenKrupp hopes to expand its share of business. Among its clients, the plant would supply auto factories in the southeast and an appliance manufacturing plant the company operates in Mexico.

The company's subsidiaries, ThyssenKrupp Steel AG and ThyssenKrupp Stainless AG, both of Duisburg, Germany, will jointly build the plant. The parent company is involved in a variety of industries and is one of the top suppliers of elevators.

The ThyssenKrupp Group, based in Dusseldorf, Germany, employs 188,000 people in 70 countries and has annual sales of about \$61 billion. The two subsidiaries involved in the new American project, ThyssenKrupp Steel AG and ThyssenKrupp Stainless AG, combine for \$22.3 billion in annual sales. The corporation's existing American operations, spread over 70 companies and 400 locations, comprise 25,000 employees and about \$10 billion in annual sales.

*Staff writer Bill Barrow contributed to this report.*

*Robert Travis Scott can be reached at [rscott@timespicayune.com](mailto:rscott@timespicayune.com) or (225) 342-4197.*

**Read ThyssenKrupp statement: <http://www.thyssenkruppnewusplant.com/news.aspx?NewsId=12>**

**Read Gov. Kathleen Blanco's statement: <http://www.gov.state.la.us/index.cfm?md=newsroom&tmp=detail&articleID=2877>**

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