



Offshore Alabama

Prepared by the University of South Alabama MBA Consulting Group in December 2010

Executive Summary

The Mobile Area Chamber of Commerce's Oil and Gas Task Force (Task Force) was created to bring businesses together to further awareness of Mobile's growing oil and gas industry. The task force has evolved into an organized effort to recruit industry related companies that compliment the products and services local businesses offer. The marketing initiative that developed was named Offshore Alabama. In a joint effort between the Task Force and a USA Mitchell College of Business MBA student, a marketing study was prepared in the fall of 2010.

When comparing Mobile to two coastal ports in Louisiana and Mississippi, the Mobile area is determined to have a competitive advantage in the following areas: port protection, infrastructure, taxes, cost of living incentives, and workforce. However, the main motivation fueling the drive to invest in the Mobile area will be lease availability and development in the eastern portion of the central planning zone, and the opening of the eastern planning zone (not expected until 2016.)

The Mobile area has several benefits to offer oil and gas related companies. The highly developed infrastructure, tax incentives for company relocations, state training programs to supplement an already skilled workforce, and the proximity to offshore locations all provide significant benefits to oil and gas companies who choose Mobile as their primary home of operations. While there is a lack of listed waterfront real estate, Mobile does have numerous inland parcels that are in close proximity to a deepwater port in either Mobile or Theodore.

The Task Force aims to attract oil and gas related companies to the Mobile area. The overall goal is to attract exploration and production companies to the Mobile area as well as companies in support roles. Essentially, Mobile aims to serve any company that wants to use the area as a center for some aspect of their oil and gas operations. To better focus its efforts, the Task Force has outlined several objectives as short and long term goals.

The Oil and Gas Task Force

The Oil and Gas Task Force (Task Force) was formed in August 2008 and is made up of representatives from over 25 oil and gas related companies in the area. Large oil and gas players such as Aker Solutions, ExxonMobil, Alabama State Port Authority, Shell, Offshore Inland and Technip, all have infrastructure and operations in the Mobile area and have come together with smaller, niche related companies through involvement with the Task Force. Initially, the Task Force was created to bring industry members together to create awareness of the local supply chain for the oil and gas industry. However, this developed into a platform for developing business relationships among local oil and gas sectors to expand Mobile's presence in the oil and gas industry.

Competition

The competitive environment in obtaining oil and gas contracts and attracting large investments throughout the Gulf Coast is strong. Because Mobile is located directly north of the central planning zone, it is in direct competition with Louisiana and Mississippi in its efforts to attract the companies that are competing for the leases within that zone. Each of the three states has deep-water ports that are crucial to the operation of oil and gas companies. Therefore, oil and gas companies looking to invest or relocate along the Gulf Coast have multiple locations to choose from that have similar features and services such as channel depth, facilities, and properties available. Also of importance is the need for the Oil and Gas Task Force to consider the wide range of indirect competitors that may influence the oil and gas industry in the future. The data below provides insight into Mobile’s current competitive environment relative to its direct competitors – Louisiana and Mississippi.

A. Elevation

Mobile possesses a competitive advantage in terms of hurricane protection by having a higher elevation than that of Lafourche Parish, LA and Pascagoula, MS. The Mobile area has an elevation of 39 feet, Lafourche 29 feet, and Pascagoula 19 feet. The difference in elevation could play an important role in mitigating storm surge damage during gulf storms. Coastline elevation is high with Theodore Ship Channel property at least 15 feet above sea level.

B. Unionization

The percentage of workers covered by unions includes all paying union members plus any workers that are not in the union, but are covered and represented by the union. Compared to Louisiana and Mississippi, Alabama has the highest percentage of workers associated with unions. Louisiana and Mississippi are significantly lower than Alabama with rates of 4.60% and 5.30% respectively. However, Mobile has a lower percentage of workers covered by unions at 3.50%. Alabama is a right-to-work state.

Area	Percentage of workers in unions
Alabama	9.80%
Mississippi	5.30%
Louisiana	4.60%
Mobile	3.50%

C. Skilled Labor Force

The Mobile area has a highly skilled and crafted workforce given its abundance of manufacturing, ship building and repair, and maritime companies. The state’s workforce development program, AIDT, offers many opportunities to train workers. AIDT recently opened a new Maritime Training Center in Mobile focusing on maritime trade skills. Specialized training geared toward production and manufacturing related industries is offered by Bishop State College.

D. Tax Rates

The chart below is a brief ranking of Alabama, Louisiana, and Mississippi and illustrates how their relative tax rate compares with each other and the rest of the United States. The best business tax

climate has a rating of one, thus, states are ranked based on most to least impressive. Alabama is more favorable in the following areas: individual income tax, sales tax, and property tax, leading to a higher overall rank relative to Louisiana and Mississippi.

State	Overall Rank	Corporate Tax Index Rank	Individual Income Tax Rank	Sales Tax Index Rank	Unemployment Insurance Tax Index Rank	Property Tax Index Rank
Alabama	19	23	17	25	16	17
Louisiana	35	19	25	47	8	24
Mississippi	21	13	18	35	4	23

E. Cost of Living Index

The cost of living index allows comparison among different consumer costs for any geographic area across the globe. This is of primary importance for the workforce as they may be relocating from an area that was more or less expensive. Oil and gas companies need to know this information to allow for suitable compensation of employees. The cost of living may play a role in deciding on a suitable and competitive business location depending on the type of workforce it is trying to attract. The following table provides the cost of living indices in southeast Gulf Coast port cities. The U.S. average cost of living is an index of 100. The chart shows that Mobile has the lowest cost of living among the three cities indicating that it is least expensive to live in Mobile.

Area	Cost of Living Index (2010)
Mobile, AL	92.4
New Orleans, LA	96.1
Houston, TX	92.6
Tampa, FL	92.4

Economic Costs & Benefits

Hurricanes are a grave concern for operations on the Gulf of Mexico. A direct impact could substantially impact company operations; however, because of Mobile's geographical attributes, the area may be more protected than other Gulf Coast locations. Some of these attributes include:

Economic costs:

- Available land - listed commercial deep water waterfront properties in Mobile area are scarce; however other waterfront properties of 10-15 feet are available. Additionally, many properties are available for purchase and lease that are inland and within five minutes of deepwater port facilities.
- Business operating climate -excellent cooperation among the business, government, and political leaders.

Economic benefits:

- Protected port – The Alabama State Port Authority is better protected from tropical weather than other coastal ports. This is because port assets are located further inland (15-35 miles) and therefore, are more buffered from wind and storm surges. Available deepwater land is at least a minimum of 11-12 feet of elevation. No assets on the Theodore Ship Canal have ever been adversely impacted by a hurricane. Water recedes at a much faster rate than other Gulf Coast locations. Post storm federal asset deployment is quicker than in other neighboring areas because of high port priority.

Target Marketing Strategy

The target marketing strategy is based on attracting oil and gas exploration and production companies by creating awareness of the strengths the Mobile area has to offer. The Mobile area has a clear competitive advantage in certain key areas of operations. Several measurable objectives of the Task Force are outlined. Adopting the following objectives will create a more concrete basis for implementation:

1. Attract at least one large exploration and production company to the area within the next three years. Focus on attracting companies that will bring the necessary support and additional jobs through substantial investment in the area.
2. Bring a major operations center and/or engineering office for one of the major oil and gas companies within the next three years. This could be a company with established locations in the Mobile area or companies considering the Mobile area for expansion.
3. Continue to grow the network among oil and gas professionals in the Mobile area.
4. Focus on connecting with professionals outside the Mobile network to create greater awareness of what the area has to offer the oil and gas industry.
5. Develop a platform for getting the community “on board” with the idea of growing the oil and gas industry in the Mobile area. Communicate the benefits that large capital expenditures from oil and gas companies would bring to the area.

Critical Issue

The Mobile area has a highly developed transportation infrastructure system and is within close proximity to offshore oil locations through the Theodore facilities of the Alabama State Port Authority and Core Industries. However, the state’s lack of available waterfront properties presents a significant disadvantage compared to other Gulf Coast states. Key opportunities are available through the abundance of inshore real estate, most of which is easily accessible through the highly developed transportation system (a key strength), and through the total support of local and regional government officials who seek the advancement of Mobile’s oil and gas industry. Leveraging these key relationships will prove beneficial in gaining community and state government approval for growth.

A key threat that the Task Force will have to address involves the regulatory changes facing the oil and gas industry. The potential lengthening of the drilling moratorium and possible tightening of government controls over the industry will impact which companies and target markets prove most promising to the area. In addition, this may increase the already strong regional competition and heighten Mississippi and Louisiana’s fight to retain and gain more market share.

The Task Force will need to create awareness in the local community and in the state legislative and executive branches of government concerning the benefits oil and gas companies could provide for

Mobile and the state as a whole. The Task Force needs to begin tracking performance of its current marketing efforts and identifying those efforts that provide the most potential for investment. Essentially, focusing on this issue will keep the value that the Mobile area offers the oil and gas industry in the forefront of community awareness.

Conclusion

The Mobile area poses an advantage to oil and gas companies that seek a location centrally situated between the eastern and western Gulf with a highly developed infrastructure and increased protection from tropical weather.

The Mobile area is ideal for oil and gas related companies that are more risk averse, specifically those concerned with the potential impact of tropical weather. Relative to its direct competitors, the area ranks best in tax rates, offers a wide variety of relocation incentives, and provides a low cost, educated workforce.

The oil and gas industry is a lucrative business for the Gulf Coast area. Mobile is an attractive location to the oil and gas industry because of the trends pointing to increased drilling opportunities and the potential growth for offshore drilling in the Eastern Gulf of Mexico. Considering these factors as well as other location specific advantages, the Task Force has a significant opportunity to grow the Mobile area in this sector. With the new policies and regulations following the Deepwater Horizon oil spill, and new technologies entering this industry on a regular basis, the Task Force will need to consider the dynamically changing aspects of the industry, while always competitively positioning Mobile as the better choice for oil and gas industry investment.