

Industry joins drilling chorus

Floridians in Congress who are trying to keep rigs off the Gulf Coast must contend with an unusual alliance of American industrial and political forces, all seeking natural gas.

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Offshore drilling would appear to have little to do with the big CF Industries fertilizer factory in Plant City.

But because natural gas is a key raw material for making nitrogen and phosphate fertilizers, CF Industries has become a leading voice in favor of drilling for natural gas off the Gulf Coast of Florida.

Natural gas prices have risen sharply in recent years, forcing some fertilizer makers to shutter plants or start joint-venture manufacturing operations in markets where gas costs are lower, such as Trinidad and Tobago.

"You don't want to see a situation where production has to move offshore," company spokesman Charles Nekvasil said. "The real issue is competitiveness."

With natural gas prices two to three times what they were seven years ago, the debate over offshore drilling near Florida is no longer just a battle between energy companies eager to tap the reserves of the eastern gulf and environmentalists and Florida politicians worried about pollution.

These days, the loudest advocates for opening the eastern gulf and other coastal areas are a broad cross-section of American industry, from plastics and papermakers to the chemical industry to fertilizer manufacturers and agribusiness.

Armed with charts showing dour numbers that purport to show mounting job losses, higher operating costs and growing trade deficits, business groups are storming Capitol Hill. And more than oil, these groups are looking for natural gas, which is thought to be especially plentiful in Lease-Sale Area 181, the section of the gulf off Tampa Bay and the Panhandle.

The depth and variety of this growing coalition is changing the political dynamic, creating unusual alliances of business-minded Republicans and farm-state Democrats, whose constituents are squeezed between high fuel and fertilizer costs.

This is making it more difficult than ever for Floridians in Congress to keep rigs off their coast.

"It's a big problem," said Sen. Mel Martinez, R-Fla., who is fighting several drilling proposals with Sen. Bill Nelson, D-Fla. "You've got people you thought might be allies who are hearing from those people, even in Florida.

"The problem is that our coalition is getting smaller. It's a few coastal states, period. And the environmentalists. It makes it very hard."

The shift was visible last week, as the Senate debated yet another attempt to open Alaska's Arctic National Wildlife Refuge to oil and gas exploration. Several longtime opponents of drilling in ANWR - a defining issue for environmental groups - either openly support a fast-moving bill to open the eastern gulf to drilling or are considering it.

They include moderate farm-state Republicans like Nebraska Sen. Chuck Hagel, as well as Democrats Kent Conrad and Byron Dorgan of North Dakota, Tim Johnson of South Dakota, and Maria Cantwell of Washington state, a strong environmentalist.

Sen. Lamar Alexander, R-Tenn., said the shift has been significant, and bodes well for legislating more access.

This year, 25 senators already have signed onto a bill by Sen. Pete V. Domenici, R-N.M., to allow drilling in 3.2-million acres of Lease-Sale Area 181, just 100 miles off the Florida Panhandle. It recently cleared the Energy and Natural Resources Committee, with Cantwell's help.

"Two years ago, (offshore drilling) was a dirty word," Alexander said. "The shocking increase in the price of natural gas hurt farmers, manufacturing jobs and homeowners so much that it caused the Senate to take a new look."

In the House, the Democratic sponsor of a bill to open the entire U.S. coast to natural gas exploration past 20 miles offshore is Neil Abercrombie, an environmentally friendly liberal from Hawaii. Even two years ago, such an idea would have gone nowhere, but Abercrombie's bill has 130 co-sponsors, including at least 20 Democrats.

Its Republican sponsor, John Peterson of Pennsylvania, is a frequent guest at industry and energy meetings, where he rails at the nation's unwillingness to open 85 percent of its outer continental shelf, particularly Florida's. "Why would one governor be negotiated with at the expense of the country?" Peterson told a recent Capitol Hill forum on natural gas sponsored by Dow Chemical. "Natural gas policy has to be a national policy, not a state-by-state policy. . . . As if a 6-inch hole in the ground with a steel casing is going to change the world."

The spot price of natural gas currently hovers around \$6.50 to \$7 per million Btu. That's down sharply from about \$15 in late 2005 in the wake of Hurricanes Katrina and Rita. But it is still two to three times higher than the late 1990s.

Aside from producing energy at power plants and factories, natural gas also is a key feedstock for thousands of consumer products.

More than 90 percent of natural gas is methane, which is converted to ethane, then ethylene. It is hard to find a consumer good without it - tires, carpets, nylon, shampoo, rubber gloves, paper cups, trash bags. For the businesses that make these goods, the cost is real:

In 2004, the United States boasted an \$82-million trade surplus in fertilizer. Last year, the industry had a \$793-million trade deficit, and 17 U.S. fertilizer plants have closed since gas prices started rising sharply in 1999, the Fertilizer Institute says.

Since 1999, the U.S. chemical industry, a large consumer of natural gas, has lost more than \$50-billion in business to foreign companies and more than 100,000 jobs, according to the American Chemistry Council. During that same period, the industry's natural gas bill rose from \$7.5-billion to \$30-billion.

"Most of our companies can produce anywhere in the world, and they're making those decisions every day about where they're going to go next," said Robert Flagg of the American Chemistry Council.

"This is not producer versus the environmental community. This is you and me, people who need jobs."

At its recent annual meeting, the National Association of Manufacturers declared that the price of natural gas was now its second-leading concern - ahead even of labor costs, and just behind rising health care costs.

The organization is working with other trade groups, including the Associated Industries of Florida, to build an even stronger coalition. The American Chemistry Council is trying to recruit consumer groups and industry groups.

"It's not a short-term answer, it's a long-term answer," said Barney Bishop, president and chief executive of Associated Industries of Florida, which has called for allowing drilling off Florida's West Coast. "It would help over the long term to stabilize (prices) for natural gas and oil."

At CF Industries, the spike in natural-gas prices last year wiped out its gross profit margin on nitrogen fertilizer sales during the last quarter of 2005, spokesman Nekvasil said.

But the overall picture isn't grim. Profit margins for CF Industries' phosphate fertilizers, which require less natural gas, grew in the fourth quarter. Its Plant City phosphate plant employs 425. Even margins on its nitrogen fertilizers have been increasing in recent years, thanks to the closings of some competing factories and a rebound in global demand.

Nonetheless, the company believes offshore drilling is crucial if it is to compete with foreign companies that have access to cheaper natural gas, Nekvasil said. Industries in China, India and many developing countries often pay a fraction of the U.S. price.

"The point you have to remember is that for the fertilizer business, natural gas is not a fuel as much as a raw material," Nekvasil said.

Environmental lobbyists are working to convince their colleagues that it's folly to try to drill their way out of the problem - America simply doesn't have enough gas reserves for long-term relief. But the industry groups have them worried.

"What makes Florida so compelling is it's such a big domino, because you've always had bipartisan support for protecting the state's coasts," said Athan Manuel, a lobbyist and head of preservation programs for the U.S. Public Interest Research Group.

"If they can take down Florida, they assume Georgia and Virginia will be easy pickings . . . and they'll just work their way up."

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