News and Notes
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A Progress Report on the Northern Plains Nitrogen Fertilizer Production Facility

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From the President's Desk

What do soft drinks and fertilizer have in common? Both share the same priority as real estate: "location, location, location."

For years, the major carbonated soft drink companies operated with a split personality. In the most simplistic terms, companies like Coca-Cola and Pepsi would manufacture syrup at about 100 facilities around the country. That syrup then would be sent to more than 1,000 independent bottlers in the U.S.

This tiered system made perfect sense. Carbonated soft drinks are more than 90 percent water and water is very expensive to transport. Adding the water at locations closer to where the product was sold reduced the cost of shipping. In recent years, industry giants have been buying up the bottling companies, reducing costs even further. Earlier this year, for example, Walmart advertised 12-packs of Coke for $1.02 – less than a penny per ounce.

Some of the same principles hold true in the fertilizer industry. UAN, for example, is about 70 percent water, making transportation costs very high and sometimes prohibitively expensive for far-off manufacturers. The result often has been an under-served market.

Reducing the freight bill for nitrogen creates a key market advantage for NPN.

That’s a core component of NPN’s “Blue Ocean Strategy,” as this month’s newsletter describes.

On other fronts, NPN remains on track in obtaining all necessary permits and approvals. NPN has not yet secured the financing that will be needed for this $2 billion-plus project. However, we continue to have productive meetings with potential major equity partners and remain optimistic.

Sincerely,
Darin Anderson
Darin Anderson
President, NPN Board

A "Blue Ocean" on the North Dakota Plains

A few years back The Harvard Business Review featured an intriguing article based on the book, “Blue Ocean Strategy.” The authors, W. Chan Kim and Renee Mauborgne, are innovative, credible and distinguished business consultants.

As an introduction to the content of this book, the authors boldly state: “Competing in overcrowded industries is no way to sustain high performance. The real opportunity is to create Blue Oceans of uncontested market space.”

By “Blue Ocean,” the writers suggest finding a way to do business where the water is blue, calm and undisturbed rather than red with blood, the result of competitors fighting mercilessly offering the same products and services to the same customers in the same markets. In the red ocean, price becomes king and low production cost the main (and perhaps only) differentiator.

To quote the article, “A Blue Ocean is created in the region where a company’s actions favorably affect its cost structure and value proposition to buyers. Cost savings are made from eliminating and reducing the factors an industry competes on. Buyer value is lifted by raising and creating elements the industry has never offered. Over time, costs are reduced further as scale economies kick in, due to the high sales volumes that superior value generates. Companies that create Blue Oceans usually reap the benefits without credible challenges for ten to 15 years. In Blue Oceans, demand is created rather than fought over. There is ample opportunity for growth that is profitable and rapid.”

As examples for Blue Ocean implementation, the book points to the likes of what Henry Ford did more than a century ago by introducing the motor car as what turned out to be the replacement of horse-drawn carriages as the main means of travel. They also identify the Chrysler Minivan and the appeal it created in the crowded automobile market. Another Blue Ocean creation was the Cirque de Soleil which has replaced the traditional circus (and associated animal issues) as a form of entertainment.

Although it is impossible for Northern Plains Nitrogen to "create uncontested market space that makes the competition irrelevant," as the book implies, it is clear we have many advantages attached to Blue Ocean benefits even in a commodity business subject to global competition.

The Blue Ocean NPN plans to explore is based upon three main realities:

1. The fact that our prime nitrogen market of several million acres is currently served almost exclusively by foreign manufacturers located hundreds of miles away in a few instances, but thousands of miles more commonly. In this freight-sensitive business, elimination of the freight bill attached to imported tons represents a very major advantage.
2. Add to that the reality that an uninterruptible supply of natural gas (which represents about 75-80 percent of the cost of producing a ton of anhydrous ammonia) is readily available at competitive prices. Long term supply prospects are positive.
3. Growers in and around the Dakotas are currently forced to use mostly anhydrous ammonia (82-0-0) and granular urea (46-0-0) to satisfy crop nitrogen needs. NPN strategy is to produce liquid urea ammonium nitrate (32-0-0), the product of choice in areas where it is readily available which is not now the case in our Blue Ocean. Since UAN is about 70 percent water, transportation per pound of N is high, all but eliminating far-off manufacturers from competing in our market due to freight, hence leaving increasing product demand under-served.

As the Blue Ocean Strategy article explains, "When it comes to Blue Oceans, successful companies pursue differentiation and low cost simultaneously".

Clearly, our Grand Forks plant location coupled with nearby natural gas and the surrounding, growing nitrogen market positions NPN far away from the Red Ocean nitrogen manufacturers currently enjoying this high priced market.

Nearby natural gas feedstock. Close to key customers. Distant competitors disadvantaged by costly freight. How much bluer can this NPN Ocean be?

Housing NPN's Workforce

Northern Plains Nitrogen will have a huge economic impact on the Grand Forks region. Mayor Michael R. Brown said it would be the city's largest capital investment project and "a significant contributor to our tax base."

Construction of the facility – which is scheduled to begin in early 2016, with peak manning levels likely coming in 2017 – will create well-paying jobs for about 2,000 workers during the construction period. NPN is working closely with the city to assure that problems with "man camps" in the oil fields are avoided in Grand Forks.

A good number of workers will be recruited from distances that will permit daily commuting. Up to one-third of the work force that will come from greater distances can be housed in existing rental housing within the Grand Forks area. This could include a number of options based on available housing, NPN's construction management expertise, industry experience and feedback from construction partners.

Grand Forks is prepared to develop infrastructure in the area near planned industrial growth (including the NPN site) north of the city. Many NPN construction jobs will be stable, long-term positions. NPN's philosophy is that by paying good wages, running a safe, clean job site and treating everyone with respect, the project will attract skilled, high-quality craftspeople. New permanent housing likely will develop to meet the needs of construction workers and permanent residents who are attracted to the career jobs at NPN and other industrial facilities.

Finally, a key asset is Grand Forks itself. NPN is offering workers and their families the opportunity to work in a growing, robust city. The long-term economic asset Grand Forks leaders see in NPN isn't just the facility being built, but the people who will build and operate the plant – men and women who move to Grand Forks for a job at NPN and stay for the quality of life the city offers.

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