



Orascom or OraScam? Corporate Income and Property Tax Reform Needed

by Deborah D. Thornton

One can't blame Iowans for having questions about the Iowa Fertilizer Company (Orascom) project, but the relevant answers aren't about whether the owners are foreign or domestic, or how much each permanent job is costing the taxpayers, or even how many "net jobs" will be created, but rather why is this giveaway of taxpayers' money still necessary? Why haven't Iowa politicians long since reformed the corporate income and property tax system so that we have a better, level "playing field" for all businesses who want to start or expand in our state?

More fundamentally, why do Iowans put up with a "scam" wherein politicians shower our tax dollars on well-to-do businesses that would probably erect the firms in question even without any incentives? Why are our tax dollars increasing the "return on investment" of a favored few instead of being used for widespread, broad-based tax reform to improve the investment climate for all businesses?

Orascom Construction Industries (OCI), a major international construction and fertilizer company, publicly traded on the London and Cairo stock exchanges, but with controlling interest owned by the Sawiris family from Cairo, Egypt, is getting an initial \$50 million tax credit deal and other incentives from the state of Iowa and local communities to build a \$1.4 billion fertilizer plant in southeastern Iowa. The company building and running the plant, Iowa Fertilizer Company, will be a wholly owned subsidiary of Orascom.¹

This fertilizer plant is the largest capital investment project ever in the state of Iowa. Lee County and southeastern Iowa need the jobs, estimated at 2,000 or more during the two-year construction period and 165 once the factory is running. Some of the questions which have been raised are how much is the government putting up per job? And is this an appropriate tax incentive? Did Iowa get "taken to the cleaners," as State Senator Joe Bolckom (Democrat – Iowa City) alleges?²

In the grand scheme of things this project is, well, pretty minor for OCI. This is because Orascom is a major multi, multi-billion dollar company, with an alphabet soup of branches, subsidiaries, and spinoffs, each building its own projects and holding significant contracts with private-sector developers and the U.S. federal government in many locations worldwide.

The new facility will be built on 300 acres near Wever, Iowa, and will be in full production by 2015. It will produce ammonia nitrate, diesel exhaust fluid (DEF), and urea – a liquid fertilizer that can be combined with other crop additives to allow one-pass application.

Admittedly, in building this plant Orascom is taking advantage of every economic development incentive they can wrangle out of the state of Iowa and local governments. As of September 12, 2012, the package includes \$1.6 million in forgivable and low-interest loans from the state, a \$1.7 million job training program, and almost \$1.2 billion in federal tax-exempt bonds through the 2008 flood-relief money, \$2 million for road and rail improvements, and various smaller, local government incentives.³

The total bonding ability under the Midwest Area Disaster Relief program is \$2.6 billion. Orascom is requesting and receiving almost half of this money, at \$1.2 billion. About half of the loan is tax incentivized, the rest is forgivable. Unlike Solyndra in California, OCI is not likely to go bankrupt. Construction and fertilizer are long-term growth industries, unlike experimental solar panels. The bonds will be paid back, but because of their favorable tax treatment, Iowa state government will lose revenue.

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The initial \$57.5 million High Quality Jobs investment tax credit was confirmed by the Iowa Economic Development Authority at the September 15, 2012, meeting. Additionally, another \$25 million could be authorized in each of the next two years, if requested by Orascom.⁴ Lee County Supervisors also offered local tax incentives to Orascom, in the form of a \$133 million property tax abatement deal.⁵

The lure of a huge fertilizer plant, potentially providing several thousand construction jobs over the next two years and upwards of 165 regular, full-time, good-paying jobs when in operation, is very enticing. But is it “enticing” as in something that is real and will last, or “exciting” as in winning the lotto, only to find out that after taxes are paid you have less in your pocket than before you bought the block of tickets containing the winner? Is this claim of 165 jobs real? Is it based on gross jobs created, or net jobs created? Will the 165 new jobs in Lee County result in unfair competition with existing fertilizer plants which are not being provided with state-of-the-art production with taxpayer money? Will those existing plants fire workers when their sales decline?

Attracting new companies and new jobs to Iowa should not involve the government picking winners through state taxpayer subsidies and federal loan programs, but should be based on lower taxes and a level playing field for all. Interestingly, Mr. Nassef Sawiris, owner of OCI, has also publicly stated that his company will “forgo” \$50 million in tax credits if the Iowa overall corporate income tax rate is lowered.⁶ Does that sound like someone who is interested in taking Iowa to “the cleaners”? Or like a businessman with significant experience, who is trying to get the best deal possible for his company and his shareholders? Can anyone really blame him? Or should we be blaming the politicians who perpetuate the “jobs scam” in order to collect campaign contributions from the “winners”?

The Iowa Legislature failed to take significant action on either the Tax Increment Financing system or commercial property and income taxes this Legislative session. The opposition to the far reaching proposals from Governor Branstad and the Iowa House was led by State Senator Bolkcom and his political party.

Governor Branstad has now publicly stated that one of his goals for the next Legislative session is addressing the corporate tax structure so that special incentives for individual companies are not necessary. His proposal should be solid and robust – addressing the wide range of special interest loopholes in the Iowa tax structure, simplifying the process, and lowering the rates for everyone. If we can continue to win companies from Illinois and other states and facilitate the growth of locally owned businesses by having a better tax structure for all businesses and not just for some, this will be a win – not a scam – for everyone.

Endnotes:

¹ “State economic development board Oks \$37 million in incentives for \$1.3 billion fertilizer plan,” *The Des Moines Register*, February 17, 2012, <<http://blogs.desmoinesregister.com/dmr/index.php/2012/02/17/state-economic-development-board-ok-37-million-in-incentives-for-1-2-billion-fertilizer-plan>> accessed on May 2, 2012.

² “Orascom incentives drawing new heat,” *The Burlington Hawk Eye*, September 25, 2012, <<http://www.thehawkeye.com/story/Orascom-092512>> accessed on September 25, 2012.

³ Dave DeWitte, “Branstad says \$1.3-billion Lee County fertilizer plant would be largest investment yet in Iowa,” *Business380.com*, February 17, 2012, <<http://business380.com/2012/02/17/1-3-billion-lee-county-fertilizer-plant-would-be-record-project-for-state/>> accessed on May 5, 2012.

⁴ “Meeting Minutes, February 17, 2012,” Iowa Economic Development Authority Board, <<http://www.iowaeconomicdevelopment.com/documents/showdoc.ashx?idArticle=5428&ID=2>> accessed on September 20, 2012.

⁵ Donnelle Eller, “More tax credits bring fertilizer plant to Iowa,” *The Des Moines Register*, September 6, 2012, <<http://dmjuice.desmoinesregister.com/article/20120906/BUSINESS/309060043/1029/BUSINESS>> accessed on September 19, 2012.

⁶ *Ibid.*

Public Interest Institute's POLICY STUDY, "Orascom or OraScam? Corporate Income and Property Tax Reform Needed," can be viewed at <http://www.LimitedGovernment.org/ps-12-11.html>.

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