Petrochem decline may change ‘look’ of industry

By CARL REDMAN
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Kaiser Aluminum, USS Chemicals, Cities Service Copolymer Rubber. These names — and others — should ring a bell for many — particularly for the hundreds of people left jobless when the companies curtailed production at facilities in south Louisiana.

High energy costs and soft chemical markets have taken their toll on the south Louisiana petrochemical corridor. The area has been bufeted by production curtailments and a sharp decline in the construction activity associated with plant modernization, turnaround and expansion.

And, now that the national economy is showing signs that it is at last on the mend, corporate executives are starting to face a knotty dilemma: Should they spend millions to modernize and keep their plants in south Louisiana? Or should they take their millions and build completely new facilities some place else?

But it’s hardly likely the lower Mississippi River valley will see its industrial residents pull up stakes and leave the area with nothing but boarded up memories, according to a number of people close to the situation.

Instead, those observers predict, the area may see the petrochemical industry take on a different look.

Although the Baton Rouge area has a few plants that are World War II vintage, plants too obsolete to compete are the exception rather than the rule, according to Al Rapp of Jacobs Engineering, a firm that specializes in plant construction and modernization.

Most plants along the lower Mississippi River were originally built during the late 1950s and through the 1960s — and most have had ongoing maintenance and modernization programs, Rapp said.

Thus, he said, it’s not likely that the Mississippi River corridor will see a rash of plant closures.

Rapp said that, while the capital expansion may not be as swift as in the past, maintenance and routine capital (See INDUSTRY, Page 6-A)
investment should prompt considerable construction activity in the petrochemical corridor.  

"But that's the routine capital investment - new technology, processes - that's been the bread and butter of the area," Rapp said. "If you just replace 1 percent of what you put into it in place, that's a big number. And on large plants, they spend between 1 percent and 10 percent of their own capital every year just to stay in operation."

"I've been in Louisiana, we've seen $2 billion to $5 billion in capital construction... The point is there's a certain amount of risk in the market here. A company can't just walk away from it. Plus, how do you measure talent and management in a project like this."

The age of a plant isn't the deciding factor when it comes to choosing between shutting it down or modernizing it, according to Hugh Bouque of Ethyl Corp.  
"It gets to be a rather complex subject," Bouque said. "A large number of factors go into a decision of whether a plant is obsolete. One is of course the bottom line - after the cost of raw materials, transportation, energy, labor, competitor's prices - is this how can you sell for a profit?"

And Ethyl Corp. - like other plants in the area - has taken a position that one of the best guards against obsolescence is always to be on the lookout for ways to reduce energy consumption.

Overhead is another problem, and many plants are looking to instrumentation and computerization for handling material more efficiently with lower payrolls.  

Each plant must be taken on its own because there are so many factors that contribute to a plant closure, according to Jim Harris, assistant secretary of the state's Office of Commerce and Industry.  

In south Louisiana, that worldwide recession has been the catalyst for many of the shutdowns and production cutbacks, Harris said.  

But now that the economy seems to be rebounding somewhat, there are definite indications that the petrochemical industry will make a comeback - but not to its pre-recession form, Harris said.  
"I'm not sure that the viability or even the same appearance in many cases, he said."

"I had a discussion with one large company recently and they were talking about when the recession is over, they will downsize their plants in the United States," Harris said. "They found the way to go is smaller plants with 150 to 200 employees. I'm not sure that you'll see the large plants in the future."

The chemical industry is shifting from commodity chemicals to specialty chemicals, according to Fred Loy of the Louisiana Chemical Association.  

Kaiser is an example of the potential for specialty lines.  

Although Kaiser's regular alumina line here wasn't competitive in a world market glutted with reduction grade alumina, the specialty alumina line on the same site is quite profitable, according to Kaiser's Dan Borne.  
"The specialty alumina business has been a good business for us," Borne said. "We do what we do very well. It's recognized as a superior product in the industry, and it is excellent."

And Loy, said the governor has expressed his concern about the future of the chemical industry in Louisiana and will work with the LCA to evolve new chemical processes in the state.  

"What will help in Louisiana is the capital investment that has already been made," Loy said. "The transportation is here. The only thing that we don't have now that we had before is cheap energy."

... If I were the state of Louisiana and I wanted to keep the jobs, I would try...