Petrochem plants’ future uncertain

By CARL REDMAN
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Once a booming part of the state’s economy, Louisiana’s petrochemical industry has been slowed by the worldwide recession — and some people close to the industry predict it will never regain the vigor it once had.

When Kaiser Aluminum announced the results of a union election late in 1982, company spokesmen said the future of the Baton Rouge alumina plant would be weighed in relation to operations in the U.S. and abroad.

And, just a few months earlier, Occidental Petroleum’s Guy Watkins had warned a group of industrial managers that the booming petrochemical plants of the Mississippi River corridor could soon be idle, the victims of rising energy costs and increased foreign competition.

According to Watkins, as fuel and energy costs increase, petrochemical producers will have three choices: They can try to absorb the added cost, they can tack it onto the price of their product or they can go out of business.

Watkins’ bleak predictions weren’t new, though. More than a year earlier, Chemical Week magazine was pointing to price discrepancies between the cost of producing ammonia in Louisiana compared to some other parts of the nation and the world.

Just six months before Watkins spoke in Baton Rouge, the magazine of the Federal Reserve Bank of Atlanta predicted that the rising cost of gas and electricity in Louisiana would reduce expansion in the energy-intensive petrochemical industry.

Louisiana’s petrochemical industry was born during a time of low energy costs, during the boom years of the 1950s and 1960s when refineries and oil producers were flaring off virtually worthless natural gas, recalled Gulf States Utilities spokesman Jim Moss.

“Not in the early 1970s, we began to feel the first symptoms that world pressure on oil might affect gas prices,” Moss said. “Our ample supplies of gas began to diminish.”

Although gas and oil prices have stabilized somewhat, many industries — especially the energy intensive petrochemical producers — are reluctant to commit themselves to capital expansion or plant improvement without more certainty of future price and energy availability, Moss said.

“From what we’ve seen, from what we know, a large number of petrochemical refiners are going,” Moss said. “But we have a net sign-up with us in the five years ahead. While it’s not booming like in the 1950s and 1960s, we’ll still see growth in the local area.”

But until we can get some stability in prices, it will be tough for industry to make long term decisions on what to do (about plant expansion).”

GSU once figured energy demand to grow at 3.5 to 5 percent a year, but that estimate has dropped to about 2 percent, Moss said.

One of Baton Rouge’s problems is that the petrochemical industry built capacity with a growth outlook based on lower crude prices and a better economy than the world has seen since 1979, according to John Dosher, president of The Pace Cos., a subsidiary of Jacobs Engineering. Dosher has made a number of studies of the Gulf area petrochemical industry for Jacobs’ Baton Rouge office.

“What you have now is surplus capacity to make just about the entire spectrum of petrochemicals,” Dosher said. “So, we don’t look for the need for new plants until 1988 or 1989.”

In the interim period, I think we will see some big plants shutting down. Like Cities Services in Lake Charles. They shutdown last year. I suspect we will see some others in the next six months and that we will see very little in the way of plants coming on.”

In general, the petrochemical industry is operating at below 70 percent of capacity and there are a few new plants — begun before the current economic slump — still coming into production, Dosher said.

However, Dosher said, the specter of foreign competition isn’t as grim as many depict.

While it is true that there have been some petrochemical plants slated in faraway places with relatively cheap petroleum products, those places have not been great consumers of American petrochemical products, Dosher said.

And, while more and more is being written about the increase in housing starts, people in Baton Rouge shouldn’t get overly optimistic that there will be a resurgence in the market for petrochemical products, Dosher said.

Petrochemicals are used throughout the economy, and it will take real growth in the overall economy to prod a resurgence of the petrochemical industry, he said.

“I think the Baton Rouge area will be pretty similar to over here in Houston,” Dosher said. “There will be very little new capacity added.”

And while there will likely be a resurgence of growth in the petrochemical industry “out five or six years,” the Baton Rouge area is still going to face some problems, Dosher said.

“One of the problems in Baton Rouge and Houston is that both have tended to use up a lot of the better sites for plants,” Dosher said. “We were looking before... and the really more attractive sites around the river have already been used up. The same thing happened on the ship channel in Houston. What you’ll get is a spreading out and down the eastern and western Gulf Coast.”

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