SOUTH LOUISIANA’s multibillion dollar petrochemical industry must shift from the production of commodity to specialized chemical products in order to regain competitive footing in the world market, says a report prepared for the state’s Department of Commerce.

Some of the very elements that attracted companies to Louisiana over two decades ago — cheap, abundant raw materials, especially natural gas — are clear disadvantages in today’s chemical market, reads the report, which says a solution to the gas problem must be found.

As advantages, the report cites Louisiana’s heavy construction of industry, raw materials, infrastructure of ports, deepwater access, terminals and pipelines, availability of land and lower taxes. These advantages make the local area competitive with — if not more attractive than competing industrial centers of Houston, Corpus Christi and Mobile.

As a disadvantage it cites the misconception by industries that areas such as Lake Charles and Baton Rouge are dominated by organized labor, which the report says is no longer the case.

The report, prepared by the Houston-based consulting firm of Pilko & Associates Inc., targets specific chemical products as potential growth areas and outlines recommendations on how to attract investment in the areas.

State officials are making an effort to work with companies in South Louisiana to help them remain competitive and to inform them of the investment opportunities and report recommendations, according to Kevin Couhig, assistant secretary of commerce for commerce and industry.

Nearly 200 chemical products are manufactured in Louisiana with a preponderance of them being feedstock and fuel energy intensive products like ammonia, methanol, chlorine and chlorinated derivatives, the Pilko & Associates report points out.

Production of these commodity chemicals — used to produce other chemicals — was fostered in South Louisiana by the ready availability of gas and the willingness of oil companies in the 1950s and 1960s to enter long-term supply agreements at prices in the range of 25 cents to 40 cents per thousand cubic feet.

The price of gas is significant because gas is used as feedstock, or raw material, boiler fuel and, to a greater extent than in some other Gulf Coast locations, by utilities to generate electricity.

Energy cost escalations of the late 1970s and federal gas policy changes saw the price of gas increase. Pilko & Associates figures the overhead cost of gas today in the interstate market to be about $3.50 per Mcf.

Resource rich nations with natural gas surpluses and growing industries began to cut into Louisiana’s market share for ammonia and other commodity chemicals as gas prices increased. According to the report, the gas price differential in these countries “can overcome the local disadvantages of production in remote areas such as substantially higher capital cost, higher transportation cost and tariff on products imported into industrialized countries.”

The report anticipates new ammonia and methanol facilities will be located in countries such as Canada, Mexico and Indonesia and in the Middle East, and the U.S. will lose strength in the market for imports of commodity chemicals for further processing.

“Louisiana,” continues the report, “has been and will continue to be more successful in producing basic products like plastics, panals caused by foreign competition from resource rich countries which are producing energy intensive petrochemicals.”

This is due in part to federal gas price and supply restrictions and the gradual shift of the gas-producing sector into federal waters offshore Louisiana, which together have caused more gas to be flowing out of the state. While Louisiana’s LNG production has dropped to a certain extent on interstate gas at an average figure of $3.50 per Mcf, Texas industries using predominantly intrastate gas pay $3.05 to $3.10 per Mcf in Houston and $3.10 to $3.30 per Mcf in Corpus Christi, says the report.

Projections by power suppliers indicate that gas will continue to figure prominently in the production of electric power by 1990, Louisiana Power and Light will generate 70 percent of its power by a gas/oil combination and Gulf States Utilities, 46 percent by gas. These figures compare with: Alabama Power and Light, 21 percent gas; Houston Power and Light, 53 percent gas, and Central Power and Light, 57 percent gas.

The Gulf Coast will be the preferred area for new chemical plant investment, reads the report, “because of the established infrastructure and excellent raw material availability.” And Louisiana can compete handily with Mobile, Corpus Christi and Houston in some areas, according to Pilko & Associates, in its heavy concentration of industry, providing both raw materials and potential markets, and in the existing infrastructure of ports, deepwater access, public terminals, pipelines and networks and maintenance facilities, some of which lessen the capital costs required for new projects.

The cost of land with deepwater accessibility in South Louisiana, $10,000 per acre, is a fraction of the cost in Mobile, $85,000 per acre, and Corpus Christi, $45,000 per acre. No deepwater access land is available in Houston. Large tracts along the Mississippi River industrial corridor are still available, although, importantly, the locations do not accommodate relatively small chemical plants requiring less than 100 acres as well as in Mobile or Bayport areas.

In taxation, Louisiana has an edge over Gulf Coast neighbors in the state sales tax, unemployment tax, initial corporate franchise tax and natural resource severance tax. Louisiana taxes run higher than Alabama and Texas in the areas of corporate income tax — Texas has none — oil and condensate severance tax and the uniform and sales tax, though there are special incentives for new industries.

Pilko & Associates found the labor pool to be 30,000-strong in Southern Louisiana as a specialty worker like instrument mechanics, computer technicians, laboratory technicians, millwrights and electricians.

"Many industry executives have the perception that Lake Charles and Baton Rouge are strongholds for construction union activity. They are concerned that higher wage rates, lower overall productivity and the threat of strikes could increase the capital cost of new facilities and delay construction schedules. In fact, the labor climate has improved dramatically, particularly in the Baton Rouge area where since 1981 effectively all major gas projects have been built open shop."

The report continues, "The large, experienced labor pool is a strength but a shift to specialty chemicals and high technology in the chemical industry may put a greater premium on worker education, Louisiana ranks below the national average in the quality of public education and may have difficulty providing high school graduates qualified for these industries in sufficient numbers."

"Louisiana’s colleges have an excellent record of supplying engineers, chemists and other college trained employees..."

"Specialty chemicals — dyes, surfactants, herbicides, synthetic lubricants, adhesives and sealants — head up the list of target industries for growth in South Louisiana. These less energy intensive, more ‘customer service oriented’ products ‘face less danger of foreign competition,’ the report states.

Engineering plastics and chemicals from imported minerals were once considered having good growth potential, and the report named 18 other chemical products suitable for production in South Louisiana through better downstream integration of existing facilities.

Couhig, the commerce assistant secretary, told CityBusiness his office would approach all of the state’s chemical companies at the technical and upper management levels to apprise them of the report findings and perceived opportunities.

The thrust of the state’s program to attract industry and build on existing industry will be aimed at: marketing; developing joint research and development programs between universities and industries; the possible formation of a state agency to coordinate new permit applications; the possible formation of a program to implement joint federal and applicant review of major water permit projects; and the encouragement of the use of cogeneration of power and steam to offset high energy costs.