Study says petrochemical industry diving

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A $45,000 state study predicts that Louisiana’s petrochemical industry will continue a devastating nose dive despite any improvement in general economic conditions.

The study, nearly a year in the making, concludes that changes in the world petrochemical market and industry are making it increasingly difficult for Louisiana-based plants to compete.

The unavailability of cheap energy in Louisiana is a factor at the center of the deterioration.

The study also concludes that there is little the state can do to reverse the situation for the Louisiana petrochemical industry, which is the bedrock of the state’s economic growth.

"We don’t necessarily agree with everything in there. We think it’s a little bit too pessimistic," said Fred Loy of the Louisiana Chemical Association.

Loy said he doesn’t disagree with some of the details in the study, but that the document doesn’t take into account such things as the ability of the industry to adapt to the marketplace and changing conditions.

"We see our industry switching from commodity chemicals to specialty chemicals," Loy said, from production of large bulk supplies of chemicals such as chlorine to such things as pharmaceuticals.

"There is a very good chance that Louisiana will get its fair share of these new specialty chemicals as they develop," Loy said.

The report mentions specialty chemicals, saying that the subject deserves further study.

One out of every four Louisiana workers is employed either directly or indirectly in Louisiana’s $5 billion petrochemical industry, the report said. But the industry operated at only 65 percent capacity in 1983 in Louisiana as well as worldwide.

"Louisiana with the rapid recent growth, is finding out that it has a large industry that faces high problems, most of which are outside the realm of state remedies," the report said. The study was done under a $45,000 contract with the private consulting firm of Process Services Inc., under DNR project coordinator Karl Finch.

The document says the situation is more serious than most people think. It said there is a misconception that Louisiana has a lot of time to evolve gradually from the existing types of industries to other industries or that high technology is the answer.

"The lack of competitiveness for some product lines could cause the demise of that part of the industry, literally by newer more efficient production coming on line in some other world area tomorrow or next year, not eight to ten years in the future since we have a lot of vulnerable production," the report said.

The competition to the petrochemical industry comes mainly from the Middle East and perhaps Canada and Mexico, the report said. Those are areas where natural gas is plentiful and relatively cheap.

The report quotes an unnamed industry official as saying "one might conclude that existing U.S. plants may remain in production until their useful lives are up and that little new U.S. capacity will be built." The report says the "problems loom so large and complex that they realistically cannot be totally remedied short-range."

The report noted that the problems of foreign competition are somewhat moderated by the high start-up costs, the lead time it takes to get into production and generally poor economic conditions in other countries such as Mexico.

The report recommends extending tax credits to Louisiana industry for improving its efficiency. DNR estimates that such planning for about a dozen petrochemical complexes around the state over a year’s time would cost an estimated $20 million.

"This could result in about $3 billion of efficiency-related construction projects over 10 years and would be a major step in bringing our industry up to the best, most current technology," the report said.

The proposed tax credit would be for planning costs for one year.

The study also recommends tax incentives in the form of long-term tax exemptions for efficiency improvement of old plants and construction of new labor-intensive plants.