Three States Offer Big Tax Breaks for Shell Oil Plant

KEVIN BEGOS,Associated Press

PITTSBURGH (AP) — Pennsylvania, Ohio and West Virginia are trying to top each other with the sweetest package of tax breaks for Shell Oil Co., which plans to build a huge new petrochemical refinery in the region.

But some are questioning why there's been so little public discussion over exactly what's being offered, and how the deals would impact communities and the region.

"Who's going to be paying for the roads?" asked Robert P. Strauss, a professor of economics and public policy at Carnegie Mellon University. "You have to think through very carefully what the additional costs will be."

The proposed plant, called a cracker in the industry, would take ethane out of natural gas and convert it into the basic materials for literally hundreds of consumer and industrial materials, including plastics, fertilizers and antifreeze.

Strauss, who worked on tax policy at the U.S. Treasury and on Congressional committees before he began teaching in the 1970s, said there's a history of politicians and the media exaggerating the long-term benefits that may come from a large industrial plant.

He said there's no question a petrochemical plant would create jobs, but perhaps not as many as people hope.

The American Chemistry Council, a Washington, D.C.-based industry lobbying group, estimates that the plant would employ 2,484 people directly in the chemical industry and 6,262 in related businesses.

Shell, part of Royal Dutch Shell PLC, has previously said that the core plant could employ 10,000 workers short-term, and several hundred long-term.

Shell has said that the basic plant could cost $2 billion to $3 billion just to build, and would attract a range of smaller plants nearby.

The company hasn't commented on specific possible locations, but government and industry officials agree on several: A former steel mill in Aliquippa, Pa., about 35 miles north of Pittsburgh, and industrial parks along the Ohio River in New Martinsville and Institute, W. Va. Ohio also has industrial land on its side of the river in that region.

Dan Carlson, Shell Chemical's general manager of new business development, said in a statement that the three states "have shown great interest in having us build

our petrochemical plant in their states. We will make an official announcement when the site selection is confirmed."

Some are disturbed that states haven't released a more detailed economic analysis of the proposed tax breaks.

"We have no idea how much the state is losing in revenue each year. Nobody knows," added Ted Boettner, director of the West Virginia Center on Budget and Policy. "It's about transparency and accountability. Is it clear to county officials, school boards, how much revenue is being foregone?"

West Virginia has offered a 25-year property tax break, Pennsylvania 15 years of tax breaks, and Ohio has reportedly offered major incentives.

West Virginia officials estimate that without incentives a $2 billion plant would pay about $29 million in property taxes each year, compared to about $11 million in Ohio.

But new legislation passed by West Virginia lawmakers last week would cut the bill to just $1.6 million each year there.

Steven Kratz, a spokesman for the Pennsylvania Department of Community and Economic Development, said he couldn't speculate on a dollar estimate for what a proposed 15-year tax break might be worth to Shell or any other company. The proposal is in a bill moving through the state Legislature.

Strauss doesn't question the basic concept behind Shell's plan: to build an ethane refinery close to both the booming supply of shale gas and to huge numbers of consumers in the Northeast.

But Strauss noted that when German automaker Volkswagen AG opened a major manufacturing plant south of Pittsburgh in the late 1970s, there were huge tax incentives and projections for large numbers of long-term jobs. Ten years later the plant closed, never coming close to the rosy job estimates.

Others said that isn't likely to happen if Shell builds an ethane refinery.

"I think that a petrochemical plant is likely to be far more stable," said Ehud Ronn, a professor of energy studies at the University of Texas in Austin.

Ronn noted that if Shell doesn't build a plant in the Appalachians, it will have to transport raw gas down to Gulf Coast refineries for processing, and then ship the ethane product back up to the northeast.

"It makes certainly a lot of sense to build it near both the input and the output," Ronn said of Shell's plans.

Boettner said his group isn't against a cracker plant coming to the region, but it wants to make clear that someone has to pay for local infrastructure costs.

"It's a classic race to the bottom, to pit states against each other," he said. "We have leverage. We don't have to give away the candy store," given the vast reserves of shale gas in the region.

In both Pennsylvania and West Virginia the tax breaks are targeted towards businesses that invest over $1 billion.

"Small businesses sort of get the shaft," Boettner said. "Somebody is going to have to make up the difference."

But Shell isn't the only company looking at building in the region.

Leonard Dolhert, CEO of Aither Chemical in South Charlestown, W. Va., said the demand for ethane is so great that more than one plant is needed.

"An idea situation would be to build a plant in each state," he said, adding that ultimately there could be billions of pounds of products made from ethane in the region each year.

"In the long run, once the first plant is built, it should create economic development in all three states," he said.

Brian Iams, spokesman for Bayer Corp., which owns the West Virginia industrial parks along the Ohio river, said his company has had discussions with more than one company that's interested in building a plant.

Shell has only spoken generally about its criteria for a site, mentioning river and rail access.

But Strauss said Shell and other major multi-national corporations take great care to examine such huge investments, looking at other intangibles such as the quality of education, infrastructure, and even government.

Strauss said he suspects that the biggest question for Shell may be which site has the best reputation for reasonable local and state government, given their long-term investment.

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Associated Press writer Kantele Franko in Columbus, Ohio, contributed to this report.

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