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Tax experts question credits for Pa. Shell plant

Posted on **June 27, 2012 at 12:51 pm**

PITTSBURGH — Gov. Tom Corbett and union leaders want lawmakers to approve a $1.7 billion tax credit to lure a new petrochemical plant to western Pennsylvania, but some tax experts say that would run counter to sensible tax practices and would be unfair to other businesses.

The first-term Republican governor, who ran as a pro-business conservative, proposes Pennsylvania's largest-ever financial incentive — a tax credit of $66 million per year for 25 years. In return, Shell Chemicals has tentatively committed to build a multibillion-dollar petrochemical refinery about 30 miles northwest of Pittsburgh.

Union leaders from the United Steelworkers and the AFL-CIO have endorsed the plan, as well as some Democratic politicians.

But David Brunori, a professor of public policy at George Washington University and author of "State Tax Policy: a Political Perspective," described the idea as "Soviet thinking."

Brunori said numerous studies show that the best tax systems have low rates, are broadly based, and treat all businesses equally. "What the governor's doing is opposite of that," he said. "There's absolutely nothing good about what the governor is proposing."

One leading advocate of free markets also said the plan doesn't add up.

"It's unfair to the companies that don't get the breaks," said Chris Edwards, editor of DownsizingGovernment.org and director of tax policy studies at the Cato Institute. "I think it makes a really bad tax policy."

Edwards said politicians around the country seem to have "a weakness for giving narrow tax benefits to their favorite industry." He said it would be better to lower tax rates for all businesses in Pennsylvania.

Both Brunori and Edwards note that Shell has argued that the tax credits would help justify the company's investment risk given the chances that much of the Marcellus Shale gas could be shipped to other regions, for use by other companies. The company says that without a large, steady supply of gas, it can't justify the huge investment to build the plant.

But Edwards said businesses are supposed to take risks.

"It does seem bizarre that they want the government to cover their private business risk," he said.

Houston-based Shell plans to tap into the enormous new supply of natural gas coming out of the Marcellus Shale, a gas-rich rock formation thousands of feet under Pennsylvania, New York, Ohio and West Virginia. The so-called ethane cracker would convert natural gas liquids to ethylene, which chemical manufacturers can then use to produce chemicals that go into plastics, tires, antifreeze and other products.

West Virginia and Ohio also have offered Shell large tax credits, and Brunori said fear may be what really motivates politicians in such cases.

“Nobody wants to be blamed for losing a big company,” he said.

Shell’s announcement last year of its plans for the refinery seemed to signal the return of major industry to the northeast United States for the first time in decades. The plant could create up to 10,000 construction jobs, 500 permanent jobs, and inspire many other companies to locate to the region.

But some companies now want to ship the gas down to existing or new plants on the Gulf Coast, some want to ship it to Canada, while others want to export it overseas. Energy industry analysts agree that the Marcellus is generating plenty of competition and even market turmoil.

“We are likely to see grand plans by many firms. Some will fail. Some will succeed. Some investments will be abandoned. Others will produce high rates of return for their investors,” said Jay Apt, director of the Carnegie Mellon Electricity Industry Center in Pittsburgh.

Shell’s plans could be slowed or derailed by competitors or even national politics, added Fadel Gheit, an oil and gas analyst with Oppenheimer & Co. in New York City. A political decision, for example, could allow the export of natural gas liquids, he said.

The market price for the gas in Europe or Japan is double or triple the price in the U.S. Even factoring in the difficulty and cost of transportation, some companies still want to export the bounty.