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How much should Delaware invest in Chemours?

Jeff Mordock, The News Journal December 2, 2015

(Photo: Damien Giletto, THE NEWS JOURNAL)

Chemours' layoffs announced this week and two quarters of steep losses have some asking whether Delaware can justify an incentive-laden package to keep the company here.

"There is no guarantee this company will even exist in a decade," said John Boyd, president of the corporate relocation consulting firm The Boyd Group Inc. in Princeton, New Jersey. Boyd advises companies weighing government relocation packages.

Wilmington-based Chemours, which spun off from DuPont on July 1 with roughly 1,000 Delaware employees, will have only about 650 workers in the state after it completes a round of layoffs sometime in 2016. Those layoffs, announced Monday, are part of a companywide reduction of 400 jobs, about 5 percent of its workforce, worldwide. Roughly 55 jobs in Delaware will be eliminated.

Those layoffs come after DuPont, the former parent of Chemours, cut between 5 and 7 percent of the company's workforce about one month before the unit was became an independent company. The prior jobs cuts also occurred at Chemours' worldwide locations, including Delaware.

Once it became independent, Chemours closed its Edge Moor Titanium Dioxide plant, impacting the jobs of 200 employees and 130 contractors. Some of those workers lost their jobs, while others were relocated, according to the company.

The ongoing reductions are part of Chemours' transition plan, an ambitious effort to bolster core products while divesting or reducing unprofitable business lines. Chemours expects the initiative will cut $350 million from its budget by 2017.

More cuts could be coming as Chemours evaluates its business lines, such as its chemicals solutions unit. Company officials have said they are weighing options for the segment, which recorded a 4 percent sales decrease in the third quarter of 2015.

"There are a few things the company would call, but the rest is under the microscope," said John Roberts, an analyst with UBS Global securities. "By default, everything that is not core is a candidate for a transaction."

As the company, which lost $47 million in its first two quarters away from DuPont, struggles to find solid ground, Delaware officials are negotiating to keep Chemours' world headquarters in the state. Sites in New Jersey and Pennsylvania also are said to be in the running.

Chemours spokeswoman Janet Smith said the company has yet to make decision about a permanent headquarters. An announcement is expected to come sometime before October 2016.

"We continue to have ongoing discussions with local and state officials about the factors we are considering, and when we make a decision on location we will quickly share that information with the local community," Smith said.

Delaware is reportedly offering a cash-laden package to cover capital expenditures, along with incentives for employee retention and growth. New Jersey is expected to entice the company with tax credits, while it remains unclear what Pennsylvania has offered.

State officials close to the negotiations were quiet after Monday's layoff announcement. Gov. Jack Markell, New Castle County Economic Development Director Marcus Henry and Wilmington Economic Development Director Jeff Flynn did not return multiple requests for comment.

Delaware Economic Development Director Bernice Whaley said she believes in a strong Chemours.

"We think the company has a future of growth and we want that future to be here in Delaware," she said.

Boyd said company leaders face challenges on whether or not Chemours will generate an economic benefit to support the use of tax dollars to retain the company.

"I think Markell is on the clock," he said. "He has to decide how much he values this company versus the real consequences if they abandon Delaware."

Delaware has a checkered history of providing economic development incentives to companies that either failed to open in Delaware or have been unable to keep hiring promises.

In 2010, Markell awarded Fisker Automotive and Technology Group $21.5 million to reopen General Motors' shuttered Boxwood Road facility near Newport and manufacture a line of cars at the site. Fisker missed sales and production targets, ultimately filing for bankruptcy.

Fisker never built a car in Delaware and the state's money was never returned.

Bloom Energy accepted $16.5 million in state funds to create 600 jobs, earning a combined $36 million in total salaries, by October and 900 jobs, producing a combined payroll of $108 million by September 2017. So far, the Sunnyvale, California company has missed its hiring targets, creating only 224 jobs with a combined $27 million payroll as of Sept. 30.

If Bloom does not reach its September 2017 hiring target, it will be required to return a portion of the state funding.

Boyd said such high-profile misses have tested taxpayer patience with government in Delaware and elsewhere.

"The public is growing increasingly weary of incentives," he said. "It is a more contentious process."

"If you are cutting the underperforming stuff, the remaining company has to be stronger," Roberts said.

However, Chemours also faces market pressures such as lower prices for its lead product, titanium dioxide, and a stronger U.S. dollar weakening the company's position in overseas markets.

"They are controlling what is in their control, but there is an awful lot not in Chemours' control, like Ti02 prices," Roberts said.

For now, Markell must determine if Chemours' performance can justify an incentive ladden-package.

"Chemours is under unprecedented pressure to cut costs," Boyd said. "It's difficult to know if the employees will generate enough tax revenue for the incentives."