

ECONOMY

Southeast Tries to Attract Chip Makers

Despite Risks, States Fund Research, Offer Incentives

By GREG JAFFE

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As auto plant construction cools, Southern states are revving up their economic-development engines to lure the semiconductor industry to the region.

In Florida, Alabama and North Carolina, state officials are either rewriting or have recently completed a revision of the state's incentive laws to offer more bait to semiconductor companies. In Virginia, Georgia, and Delaware, local officials have poured tens of millions of state dollars into research facilities at state universities.

There are big risks involved. The semiconductor industry is experiencing some overcapacity in certain kinds of chip production. In 1996, world-wide semiconductor revenues shrank about 9% from the year earlier, says Paul Meeks, director of research at Jurika & Voyles, a technology fund in Oakland, Calif. Moreover, shaky Asian markets also pose a threat to 1998 growth.

"The lack of demand that would result if the Asian markets go into recession scares me," Mr. Meeks says. And even the state industry hunters readily admit there will likely be more losers than winners. "If these states never land a semiconductor fabrication plant these investments may not be a wise move," admits Dick Sheehy, a site-selection consultant who has advised several Southeastern states interested in luring semiconductor plants.

Those states chasing plants, however, say they expect that demand will increase enough to take up the slack, and that a series of new plants will begin to come on line in 1998. A recent forecast from the Semiconductor Industry Association, a San Jose, Calif., trade group, predicts that about 35 semiconductor plants will be built in the U.S. in the next five years.

Indeed, at least three semiconductor firms, including LG Semicon Co., a unit of South Korea's LG Group, and Philips Semiconductor, a division of Philips Electronics NV of the Netherlands, have been scouring the region for a site. In October, LG officials toured sites in Georgia, Alabama, Florida and Virginia.

Potential for 2,000 Jobs

What's more, economic-development officials say the potentially huge payoff is worth the risk. An average size plant, valued at between \$1 billion to \$2 billion, would bring about 2,000 jobs paying between \$30,000 to \$50,000 a year. "This sort of plant has the potential to remake an entire local economy," says John Riley, the head recruiter for Delaware's Eco-

The Bait: Luring Semiconductor Plants

VIRGINIA

Invested \$17 million to build an electrical engineering program at Virginia Commonwealth University that includes a state-of-the-art "clean room" for research.

FLORIDA

Plans to offer classes in manufacturing semiconductor chips at more than one dozen community colleges throughout the state.

DELAWARE

Raised \$500,000 in private money to lure semiconductor plants. State university offers a degree program in semiconductor fabrication even though state is without a plant.

NORTH CAROLINA

Recently revised state incentive laws to offer greater tax breaks to semiconductor firms.

GEORGIA

Invested more than \$10 million in an electrical engineering research facility at Georgia Institute of Technology.

conomic Development Office, which is mounting an aggressive drive to lure a plant.

And because the industry likes to cluster in an area "you usually don't just get one plant, you get five plants and another half dozen support companies on top of that," says William Todd, who heads the Georgia Research Alliance, a private non-profit group whose mission is to help lure high-tech industry to Georgia.

Indeed, for cities such as Austin, Texas, and Portland, Ore., the plants have triggered economic booms. In the Austin metro area, the semiconductor industry has created almost 20,000 manufacturing jobs in the last six years. Today semiconductor represent about 35% of Austin's manufacturing employment.

Those kinds of numbers have caught the attention of the Southeast just at a time when the sudden expansion of automobile plants that fueled the South's manufacturing gains seems to be cooling off. Volkswagen AG's Audi, which had been scouring the Southeast for a site in recent months, has put its expansion plans on hold, according to company and economic development officials.

Virginia's Success

Meanwhile, the recent success of Virginia, which has landed three semiconductor plants in the last two years, has convinced industry hunters that landing such plants is within the realm of possibility.

Virginia had no experience with semiconductor plants when it landed the first of its plants. But thanks to an aggressive recruiting campaign, an incentive package worth \$75 million, and a commitment to

spend as much as \$17 million to build electrical engineering program at Virginia Commonwealth University, the state pulled off a shocking victory.

"Until Virginia, we really thought it was a West Coast kind of industry," says Delaware's Mr. Riley, echoing others in the region. "That really caught our attention." Now states across the region following Virginia's lead.

In Florida, state officials recently revamped the state's incentive laws allow it to offer a base incentive of at least 10% of the total cost of the plant, plus additional tax breaks on research and development and training. A \$1 billion semiconductor plant could pull in \$100 million in up-front incentives plus millions more in additional tax breaks.

The state also has begun an ambitious program at the community college level to train technicians for semiconductor fabrication plants. The state's first community college degree program in semiconductor fabrication kicked off last month. Florida officials hope to replicate it at many as a dozen community colleges throughout the state. That would give Florida a greater concentration of programs than silicon hotbeds such as Jose, Calif. and Austin.

"You have to make a huge commitment in terms of showing this industry that you are ready," says Steve Mayberry, a president at Enterprise Florida, the state's recruiting arm. "And we are making that commitment."

Indeed, recruiters across the Southeast say they expect a sudden burst of announcements followed by a long quiet

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*Semiconductors
investing
investments*

*SIP predicts
25 semiconductor
plants built in
next 5 years*

*Why those
States play the game!*

Virginia

Florida