

SUMMARY REPORT ON THE KEIDANREN

INVESTMENT STUDY MISSION TO THE U.S.

July, 1984

Keidanren (Federation of Economic Organizations)

Oregon

Meeting With Victor Atiyeh, Governor of Oregon

June 4th (Monday) 17:30 - 18:15

Victor Atiyeh: I very much appreciate that the Keidanren (Federation of Economic Organizations) investment study mission to the U.S. has chosen Oregon as one of its visiting states. Oregon has been overlooked as an investment site despite its favorable investment climate such as abundant resources, good port facilities and high-quality labor force.

I myself started as a businessman (in carpet sales), and since I became a governor of Oregon, I have been encouraging business in the state. For example, I organized an action council, constituting of the heads of related departments, to examine what kind of specific support the state can provide for the industries looking for investment opportunities in Oregon. NEC, which established a new business branch in Oregon, should know best why it did so, but in my opinion, it is because NEC had thorough discussion with the state

stay for about a week. During this period, I am intending to set up a state trade representative office in Tokyo.

Morita, Mission Leader: Most of the Japanese corporations make preliminary researches when they plan to establish a business branch in the United States, but the existence of the unitary taxation system was revealed to be a big barrier to such efforts. I hope that the unitary taxation system will be repealed as soon as possible.

Atiyeh: I do not plan to, and do not want to hold a special state assembly for this issue. The Economic Development Committee of the state legislature is against the unitary taxation system. We are currently conducting a research on how general public will react to the abolishment of the unitary taxation, and so far found that it is generally taken positively. However, I'd like to request that you will reconsider the attitude that you don't even discuss investment just because there is the unitary taxation system. The state assembly will be convened next January, and I look to abolish the unitary taxation system by the end of next year.

Iwai: I'd like to know the reason why many Japanese firms invest in California but not so many in Oregon.

Atiyeh: I don't know why, either. Oregon has high-quality, and highly loyal labor force, as well as good transportation facilities. Recently, we see more electronics-related industries have invested or expanded their business in Oregon.

Explanation of Oregon's Investment climate

June 5th (Tuesday) 8:45 - 10:00

Victor Atiyeh: Oregon has a good natural environment and diligent labor force, but it has been rather overlooked in between Washington and California. Recently, Hewlett-Packard Co., Intel, and other companies have moved from Silicon Valley to Oregon. German Wacker Chemical is also expanding its business, and Tektronix, Inc. has its headquarters in Oregon. There are more than 30 high technology industries, and over 65 corporations associated with the American Electronics Association (AEA) are located in Oregon. I hope that Oregon will be recognized as Silicon Forest.

Through the discussions with the Keidanren mission this time, I realized how seriously the worldwide unitary taxation system is impeding Japanese investment in Oregon. I expect that the state assembly, to be convened next January, will pass the legislation that repeals the unitary taxation system, and I believe in the passage of this legislation. It is true that there is a problem concerning the unitary taxation. But I'd like to stress that you should not pay attention

only to that issue. Instead, you should realize the fact that Oregon is abundant in resources and has a good investment atmosphere.

(Slide Presentation of Oregon Follows)

Robert Ames

President, First Interstate Bank of Oregon

I'd like to explain the economies of Oregon. The population of Oregon state totaled 2,635,000 last year, showing an 18 percent increase over the previous year. The unemployment rate was 9 percent. We have abundant labor force, and particularly, high-quality skilled labor is easily available. The major industry of Oregon is forest goods production, but its share in the total industrial production has been decreasing. On the other hand, high technology industry has grown most for the past ten years. Tourism is also becoming an important sector. Trade is significant to the economies of Oregon, and the trade with Japan accounts for 44 percent of the total exports and 60 percent of the total imports of Oregon.

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discussion by Mission Participants (Excerpts)

June 16th (Saturday) 20:30 - 22:00

Takai: Governor Atiyeh of Oregon confirmed with us that he will make every effort to abolish the unitary taxation system, while our mission leader responded that he understood Governor's good intentions but would like to have some kind of written resolution. This was followed up by sending a copy of the resolution of Indiana to Governor of Oregon.

Oregon seems to have been overlooked in between Washington and California. Oregon has a strong consciousness that it rivals California; in response to this, Oregon has a favorable feeling towards Japan. People in Oregon call themselves "Oregonian" and take pride in their state. The state government has a very good relationship with local communities and private industries. The industrial complex seemed to me a little too luxurious[?].

Iwai: First of all, I was surprised by the welcome in Oregon. Before this mission, I had an impression that Oregon is rather a closed society to outsiders, but I came to realize such a welcoming attitude is a proof that they highly evaluate

the business activities of Japanese industries in the United States. More specifically, I believe that the Japanese business operations rooted in the U.S. environment, typically shown in the operations of Sony and Kyocera, were highly appreciated by Americans.

Hashizume: Hospitality of Oregon was most impressive to me. In Oregon, the state government and private enterprises are working very closely for the further industrial development in the state.

Comments on the Mission for U.S. Investment Climate Study

Akio Morita

Chairman of the Committee on International Investment
and Technology Exchange

Recent Japan-U.S. economic relationship has been strengthened in general, despite of several outstanding issues, and has developed and expanded favorably to both Japan and the United States.

Considering the business activities in particular, the Japan-U.S. economic relationship has outgrown the stage of merely trading goods, and entered into a new era of much broader, full-scale industrial cooperation including mutual direct investment and technological exchange.

Taking into account such developments, Keidanren dispatched a mission to study U.S. investment climate. The primary aim of this mission was to grasp the current status of each U.S. state, so as to find certain measures to promote mutual industrial cooperation that are more suited to this new Japan-U.S. economic era. Therefore, we intensively discussed the

investment structure of each state that would induce Japanese direct investments and responsive measures of each state government, legislature and other related parties, as well as the ways to promote U.S. investment in Japan and technological exchange.

The most important assignment of this mission was to discuss the worldwide unitary taxation system that is employed in several U.S. states.

It is needless to say that this unitary taxation system has been a controversial issue for its irrationality not only in Japan but also in many European countries that are investing in the States. We tried to appeal that such a system severely affects industry's willingness to invest in the United States, and in the long run, it is not beneficial to the finance of the states employing such taxation system.

I may conclude that these arguments have led to self-examination of related authorities and contributed to altering their recognition on the matter. At the same time, it should be noted that every visiting state showed a positive and welcoming attitude towards Japanese investments.

During this mission, governors and state legislature members of several states, namely, Indiana, Oregon, Florida and others, expressed their deep understanding on this issue, and in fact, some of them assured us of the repeal of the worldwide unitary taxation system in the near future.

In addition, President Reagan, Vice-President Bush, State Secretary Shultz, and other Federal government high officials highly evaluated the achievement of the Keidanren mission when we met at the White House. Moreover, we had an unprecedented welcome.

However, we cannot be too optimistic about the future of the worldwide unitary taxation system. U.S. Federal government claims that the issue depends strictly upon each state government, and those states which are now employing the unitary taxation system have a complex political background concerning state finance or domestic treatment of multinational enterprises.

In California, where the worldwide unitary taxation system was originally established, Governor and state senate members showed their understanding on our intention, but the future

treatment of this issue is not yet known due to different political stances taken by the concerned parties.

Since Japanese industries have invested most in California in the United States, we should tenaciously continue to appeal our stance that we are against the unitary taxation. However, the more important thing would be that the mission of this kind should not end in a mere study, but it should lead to more direct investment activities by the Japanese industries.

I believe that will be the key to the further development of the Japan-U.S. economic relationship, and in the long run, it will contribute to eliminating trade frictions.

The mission this time was divided into three groups so as to visit as many states as possible in a limited time.

Two other mission groups were headed by Mr. Tozaki, Chairman of C. Itoh & Co., Ltd. (Chairman of the Committee on Atlantic Institute) and Mr. Okuma, Advisor to Nissan Motor Co., Ltd. (Vice-Chairman of the Committee on International Investment and Technology Exchange). The mission visited a total of 23 U.S. states. Finally, I'd like to express my heartfelt

thanks to both mission group leaders and other participants
for their dedicated efforts and cooperation.

U.S. Investment Climate

Asa Jonishi

Vice-President, Kyocera Corporation

The mission C group left Japan on June 4th to visit Oregon, Indiana, New Jersey, (New York), Pennsylvania, Missouri, and California in a little over two weeks. But I myself left a day earlier to add Washington to my visiting states with the mission B group.

The mission was welcomed by every state. Governors, state officials, House and Senate members, and top leaders of major private corporations all welcomed us with enthusiasm and they were eager to promote their own state. Oregon welcomed us with a quasi-national guest treatment (police, marching guards) and some states (Oregon and Pennsylvania) provided us private helicopters and aircrafts so as to help our mission carry out most effectively. Thus, we felt the kindness and best consideration of each state and could successfully complete tightly planned out schedule.

Contribution of the Japanese private enterprises to the

U.S. local communities has been significant not only in the economic field but in the cultural affairs. They invested extensively in all parts of the States. Japanese industries, above all, manufacturing industries, left a marvellous achievement in this respect. This seems to have contributed to creating a better "image" of Japanese corporations and set up a base for an enthusiastic welcome of the mission by all states. Recent improvement of the Japanese social status in the States, which is still predominantly a white-oriented society, can be attributed not only to the efforts made by the Japanese-Americans but also to the fact that Japan come to have an economic power almost comparable to that of the United States over the past twenty years. Through my visit to different U.S. states as a mission member, I fully realized that Japanese industries, once referred to "Japan Inc." by the Americans, competed in and won the U.S. market only to yield unbalanced trade, and despite being frowned by some Americans, they helped to establish Japan as one of the most friendly nations of the United States. Highly-placed Americans expressed their welcome for the expansion of the Japanese business corporations in the United States. I was moved by the efforts made by the Japanese companies, and at the same time, by the "fair play" spirit

of the Americans who honestly praised the Japanese success.

Each group of the Keidanren mission, representing Japanese business community, visited the states with an aim of studying U.S. investment climate so as to maintain friendly relationship of the Japan-U.S. economic cooperation and to reduce bilateral trade imbalances. The mission was welcomed with respect. Those who were promoting their own state, headed by governors, were all excellent persons. I felt really happy that I could meet these fine men.

Governor Bond of Missouri, who himself explained to us the investment climate of the state clearly and effectively, is young and capable. Governor Atiyeh of Oregon is determined to abolish the unitary taxation system at the stake of his political life. I was deeply impressed by his enthusiasm and commitment to promote Japanese investment in Oregon, taking the advantage of being located on the Pacific coast and close to Japan.

Japanese enterprises which plan to newly establish or expand business in the United States anticipate different

investment climate based upon each company's strategy. They generally assume the best investment site and scale according to various purposes such as for sales, manufacturing, service and distribution, and carry out negotiations, taking into account the investment climate of each state and more detailed incentives or disincentives. Kyocera, with which I am associated, has been looking for an appropriate investment site as we see the needs to build a new production plant in addition to the existing three production facilities in San Diego, California.

The conditions are:

- 1) No unitary taxation system is employed;
- 2) Cheap electricity is available;
- 3) Close to the existing plants for easy management;
and
- 4) High-quality labor force is available.

In addition to the above, cheap land and good transportation facilities are of course the crucial factors.

One of the main purposes of the Keidanren mission was to appeal to each state that the most important condition for

a better investment climate is to repeal the unitary taxation system. With this regard, I believe each group of the mission made a tremendous effort.

Besides the conditions mentioned above, explanations on the investment climate by the state authorities included:

- a) Living environment (climate, outdoor sports facilities, etc.);
- b) Use of I.R.B. (Industrial Revenue Bond);
- c) Well-established higher education facilities; and
- d) Cost-sharing for workers' education.

Companies may put other factors such as closeness to the client or availability of raw materials at higher priorities, but I found that every state was willing to provide references and other data. Those who are in need of such informations should not hesitate to request them.

It was a great achievement that Leader Morita made a successful effort in getting confirmation for the abolishment of the worldwide unitary taxation system from Governor and Deputy Governor of Indiana, Speakers of the House and the Senate, and House and Senate minority leaders. Furthermore,

Governor of Oregon is dedicated to ending the unitary taxation system. California is the key state in this issue, since the unitary taxation system was originally adopted there. Governor of California suggested his intention to repeal the unitary taxation in a press conference early May, but I sincerely hope that with the coordination with the state legislature, California will improve its investment climate by realizing the abolishment of the unitary taxation system.

Investment Climate of Eugene Area, Oregon

Rinzo Iwai

President, Fujitsu America, Inc.

1. General Description

- A total of 430,000 people or 16% of Oregon's population live in three counties in the West Central Area including Eugene, the second largest city next to Portland in Oregon. (Three counties are: Lane county - including Eugene and Spring Field; Benton county - Corvallis; and Linn county - Albany).

- 70% of Oregon's total population live in the area spreading between Portland and Eugene.

- The major industry in this area is forest goods production (plywood), but other industries, high technology industry in particular, have become increasingly important in recent years.

Major Statistics

	Oregon State	Total of 3 counties	%
Area (sq. kilo meters)	64,000	19,200	30
Population	2,660,000	430,000	16
Labor force	1,316,000	205,000	16
High-tech related labor force	43,200	6,600	22
Total remuneration (\$ mil.)	1,300	180	11

2. Land Use Related Issues

1) Land

- A total of 4,850 acres has been developed as industrial sites.
- Land cost averages between 13 cents and 1 dollar 50 cents per square feet.
- Water supply, electricity, and drainage systems have been introduced in most areas.
- In case of newly building such facilities, part of the cost (maximum half of the total cost) will be provided by the city.

2) Transportation

Sea: Portland Port, Coosbay Port, and New Port are accessible within 2 hours.

Air: Mahlon Sweet Airport is located in Eugene.

Truck: Eugene is located along the Interstate No.5 and there are 25 trucking companies operating in Eugene.

Railway: Southern Pacific and Amtrak services are available.

3) Corporations

Hewlett-Packard, Tektronix, Intelldex (industrial robotics), Spectra Physics (laser scanner), Videx (peripherals), Oregon Metallurgical (titanium), Teledyne Wah Chang (metallurgy), Albany Titanium (titanium sponge), CH M Hill (engineering), etc.

No Japanese enterprises have invested in the area yet.

4) Foreign Trade Zone

An application to designate Eugene Airport and Coos Bay Port areas as Foreign Trade Zone has been submitted. The designation would reduce tariff rates applied to imported parts and components

if they are brought into these areas first to be assembled and eventually imported to the U.S. in the form of finished products.

3. Education

Universities: Oregon State University (students: 7,000, full-time; 25,000, total)
University of Oregon (students: 16,000)

Technical Colleges: Lane County College (Eugene)
Linn-Benton County College (Albany)

4. Impressions

- Investments in high technology industries have been encouraged in this area with an aim to make it a "Research Corridor" by promoting cooperation between universities and private corporations.
- Taking the cooperative relationship between Stanford University and Hewlett-Packard located next to the University as a model, the authorities in the area are eager to invite participants in the R&D City Plan currently underway next to the University of Oregon.
- Hewlett-Packard built new production plants such as

CMOSIC with 2,400 employees, Handheld Calculator, Portable Computer, etc. in Corvallis. Hewlett-Packard finds it advantageous to have such plants in the area in terms of: 1) the area's good living environment; 2) access to university; and 3) good work ethics among employees.

Investment Climate of Oregon

Toshio Takai

Executive Director

Electronic Industries Association of Japan

Geography, Politics, and General Economy

1. Geography

- Oregon is located on the Pacific coast in between Washington and California.
- The Cascade Mountain range parallels central and western Oregon. There are four distinct seasons; the climate is moderate with a relatively large annual rainfall; thus Oregon has similar natural environmental conditions to those of Japan.
- Oregon is strategically located, with an excellent waterway system connecting inland states such as Idaho and Montana through the Columbia River.

2. Politics

- Governor 1 (Rep)
- Federal Senate members 2 (Rep)
- Federal House members 2 (Rep) 3 (Dem)

State senate members 9 (Rep) 21 (Dem)

State house members 24 (Rep) 36 (Dem)

- Governor supports free trade policy. He has a business background, and detests red-tapism in administrative procedures.

3. General Economy

- The economy of Oregon has been achieving a remarkable growth as with other Pacific states.
- The focus has been shifting from a dependence on fishery, forest and agricultural products and trade with Japan to high technology industries and direct investments.
- Japan has been Oregon's most important trading partner. Trade with Japan accounts for 40% of Oregon's total exports and 60% of total imports.
- Oregon's trade with Japan is balanced. It exports lumber and grain to Japan, and imports machinery from Japan.

4) Society

- People in Oregon particularly take pride in their state and like to be called "Oregonians." Leader Morita received an enthusiastic applause when he made a speech

at the state dinner: "I feel I became an Oregonian only in 6 hours since I arrived here."

- Oregon has a strong consciousness that it rivals Washington and California.
- People are gentle, and the society's security is well maintained.
- Japanese Fuji Telecasting Co. is now shooting a TV drama titled "Love from Oregon" for a production cost of about one billion yen in Oregon. This is a story about a Japanese boy who was orphaned in an automobile accident and went to live with his aunt in Bend City, growing up in the nature of central Oregon. The TV team was also invited to a luncheon held by the Mayor of Bend City as with Keidanren mission C group.

I remember that the TV team told me they didn't mind staying long in Bend because there was a Japanese food catering service operation. The drama will be on air starting this October in Japan, and I believe it will make a great contribution to furthering Japanese understanding of Oregon.

3. Feeling Towards Japan

- Oregon's feeling towards Japan is very favorable as we saw in Governor Atiyeh's enthusiastic welcome of the mission C group. This can be interpreted as a proof of Oregon's strong consciousness that it rivals Washington and California.

4. Investment Climate

- Mission C group had the most enthusiastic welcome by Governor Atiyeh among the visiting states. Through this experience, we realized that Governor and state officials are highly interested in and eager to promote Japanese investments.
- State representative office will be established in Tokyo this October. Before that, Governor Atiyeh is scheduled to visit Japan for a week starting on September 9th.
- An action council, constituting of the heads of related departments, has been organized to examine what kind of specific aid can be provided to potential investors.
- Oregon has been rather neglected as an investment site by Japanese industries partly because it is located in between Washington and California. Governor expressed his intent to change his modest policy in the past to

a more aggressive one so as to promote Japanese interest in his state.

- Oregon is located on the Pacific coast and close to Japan.
- Land is easily available either on rent or by purchase. The rental fees for buildings are 40 to 50% lower than those of California. For example, the land cost in Bend City, situated in the center of the state, is about \$30,000 per acre.
- Labor cost averages ten dollars an hour, which is not considered low, but the quality of labor force is very high and so is labor productivity.
- Workers are generally well trained. Community college in Bend produces 150 engineers every year.
- Oregon is eager to promote high technology industries in the state. Governor said that he looked to build "Silicon Forest" in Oregon.
- High technology industries have developed around Portland, and several high-tech enterprises such as Hewlett-Packard and Intel have moved some of their production facilities from California to Oregon. There are approximately 60 corporations associated with AEA are located in Oreg.
- Oregon plans to designate part of the Port area as free

trade zone.

- Oregon has an abundant water supply, and inexpensive electricity is available.
- United Airlines recently started a direct flight service between Portland and Tokyo once a week.
- For any information on investment in Oregon, please contact Mr. J.C. Anderson of OEDD.

5. Unitary Taxation System

Governor Atiyeh earnestly supports the repeal of the worldwide unitary taxation system. However, the state administration, legislature, business community and the common public have not yet realized the fact that the unitary taxation system is a serious disincentive to investments. The Governor seemed to indicate this to his constituency, taking the opportunity of our visit. In fact, the Governor highly evaluated and appreciated our leader's repeated efforts to explain how seriously the unitary taxation system is impeding Japanese willingness to invest at a press conference at the airport and at many other meetings.

The Governor told our mission leader that it was impossible

to hold a special session to discuss the repeal of the unitary taxation by the end of this year due to various political reasons. But he confirmed with us that he was determined to pass the legislation in the 1985 session.

However, having a deep insight on the Western society based upon a contract, our inspired mission leader Morita responded that he himself did not have any doubt in the Governor's commitment, but it was impossible to persuade Keidanren members that they don't have to consider the unitary taxation system a big issue in investing in Oregon solely based upon the Governor's verbal statement.

The leader wanted to have some kind of written statement that endorses the Governor's commitment. The leader also requested Governor Atiyeh to announce such a statement before the Keidanren mission left the States.

On June 20, when most of the Keidanren mission C group members returned home, Oregon's state government made an announcement through the state revenue office that the Governor proposed that the state government should adopt a Federal system in key areas of accounting corporate

income taxes. (This in effect means the repeal of the unitary taxation system.)

The largest problem in the state regarding the repeal of the unitary taxation system is how to secure alternative resources to supplement reduced tax revenue. In case of Oregon, the prospective decrease in its revenue by the repeal is estimated to be about 20 million dollars.

(If Oregon's state revenue office does not tax incomes on dividends of Oregon-located multinational corporations, the decrease will be about 40 million dollars). This amount is one-digit lower than that of California.

About two weeks before the mission's visit to Oregon, a leading Japanese electronics manufacturer announced its decision to establish a business in Oregon. The Governor explained that this decision was made because the unitary tax would not be imposed upon this company after thorough discussions with the state revenue office.