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WHY OREGON SUDDENLY LOOKS GOOD TO HIGH-TECH COMPANIES

IT DUMPED ITS UNITARY TAX—AND MAY SOON BECOME A SILICON FOREST

States with moribund old-line companies have come to regard high-tech industry as an economic white knight. In a mad scramble to attract electronics companies, particularly from abroad, they are offering a slew of incentives—mostly in vain. The electronics industry continues to be concentrated in five states—California, New York, Massachusetts, Texas, and New Jersey.

in building five manufacturing plants in the Portland area by 1987. These plants will manufacture products ranging from personal computer printers to advanced fiber-optics telecommunications equipment.

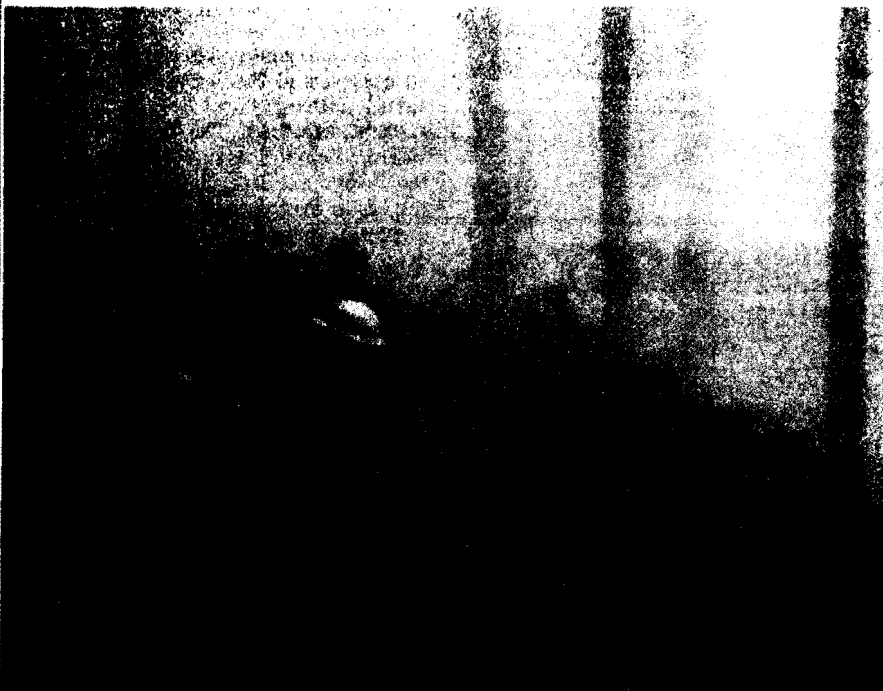
And the Japanese are not alone. In October, two leading electronics companies also tapped Portland as the home of new plants. Wacker Silitronic Corp., the

pressure from executives such as Akio Morita, Sony Corp.'s chief executive officer, who claims that 120 Japanese companies would sink \$1.4 billion into the state were the tax dumped.

Oregon officials argue that their cause was greatly helped by repealing the tax at a time when the electronics industry was expanding rapidly. "If we had repealed the unitary tax in 1979, I doubt very much we would have received the response we've gotten today," says Governor Victor G. Atiyeh. On the eve of a recession, argues Atiyeh, Oregon's move "might have been ignored." Widely known for its aggressive environmentalism, Oregon has been struggling to shed a "welcome to visit, but don't stay" reputation. With its mainstay forest products industry in a relentless decline that has cost the state 15,000 jobs over the past five years, Oregon's leaders had to do something to attract investment and jobs. Despite a gradually improving economy, employment in the Portland area remains 5% below the peak level of more than 560,000 hourly and salaried workers reached five years ago. The new plants are expected to create more than 2,000 jobs initially.

'A BIG CONVENIENCE.' The repeal of the tax has made Oregon's other assets and incentives more attractive to companies. Portland's name might still be absent from many final site-selection lists were it not for the area's lush surroundings and its proximity to California's Silicon Valley. Indeed, the Japanese like to call it the "Silicon Forest." Moreover, Oregon offers low housing costs and a highly stable, skilled work force. The low price of industrial land, which even after doubling over the past year remains a fraction of California's sky-high values, is another big plus. And for the Japanese, the two-hour overlap between the Portland and Tokyo workdays can be a selling point. "That's a big convenience when it comes to communicating with the parent company," observes Satoshi Nakaichi, a vice-president of Melville (N. Y.)-based NEC America Inc.

By sharply reducing workmen's compensation rates and streamlining land-use regulations to make large industrial sites more available, Oregon has removed two other longstanding barriers to development. And the formation of an economic "action council" made up of



THE FOREST PRODUCTS INDUSTRY, THE STATE'S MAINSTAY, IS IN RELENTLESS DECLINE

Oregon, however, seems to have hit on a success formula: It simply rescinded its unitary tax.

The unitary tax, which 12 states still have, has drawn a firestorm of criticism from foreign investors and U.S. executives because it taxes a portion of the worldwide income of companies, not just income earned in the U.S. Until the tax was repealed last July, Oregon had never attracted any Japanese investment or any foreign investment at all for six years. Now, Oregon—especially the Portland area—has become the darling of the Japanese, who have led the opposition to the unitary tax.

Subsidiaries of four major electronics companies—NEC, Fujitsu, Seiko, and Kyocera—have announced plans to invest hundreds of millions of dollars

U.S. subsidiary of a West German chemical company that already produces silicon wafers in the city, has announced an \$80 million project. Over the next three years, it will construct what it believes will be the world's largest facility for producing polycrystalline silicon, the basic material used in computer chips. National Semiconductor Corp., meanwhile, plans to invest as much as \$150 million in a semiconductor plant that could eventually employ 2,000 workers.

As long as Oregon's southern neighbor retains its unitary tax, Oregon "looks awfully good" to expansion-minded companies, insists John Anderson, director of the state's economic development department. The California legislature passed up a chance to repeal the tax in September, resisting stiff

state agency heads has made negotiating with interested corporations less cumbersome. During discussions with National Semiconductor, for example, the council helped nail down the company's decision to open shop in Portland by providing answers to a number of sticky questions within 24 hours.

Foreign investors have also been attracted by the existence of an expanding homegrown electronics industry. A survey issued in October by the American Electronics Assn. ranked Portland 10th among U. S. cities for electronics companies. Anchored by Tektronix Inc., a \$1.3 billion computer instrumentation company and the state's largest private employer, Portland has an ample pool of entrepreneurial-minded engineers. In recent years, dozens of former Tek employees have started new companies in the area.

The decision by Intel Corp., the Santa Clara (Calif.) semiconductor company, to locate a facility in Portland in the mid-1970s has also added substantially to Oregon's "critical mass" of electronics companies. In the past year and a half, the company has added 1,000 employees, raising its area work force to 4,400. And further growth appears likely. "Based on the land we own or have an option on, we could employ 12,000 Portland-area workers by the early 1990s," says George Drumbor, an Intel spokesman.

BAD ATTITUDE? Bolstered by the Japanese investments and current negotiations with other companies about placing facilities in the area, Portland's status as a regional center for electronics seems on solid ground. But some locals are already worrying about the effect of growth on the area's much-guarded quality of life. Says Steven Carter, business editor of *The Oregonian*: "The last thing we need is another Silicon Valley in the suburbs to the west of Portland, where much of the high-tech expansion has occurred."

Many in the business community fear that anti-investment attitudes and policies will revive again. Especially dangerous is the attitude that, "Hey, maybe our economic problems are over," says John W. Mitchell, an economist with U. S. Bancorp, the parent of Oregon's largest bank. With a tax structure that remains seriously out of balance—the state lacks a sales tax and relies heavily on personal income and property taxes—the region still scores low as a place to invest, according to some surveys. More important, the prolonged weakness in the area's heavy equipment and forest products industries, which has prompted Georgia-Pacific Corp., Boise Cascade Corp., and others to curtail operations sharply, makes it imperative that the state continue to place a high priority on attracting more investment. ■