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# • Industrial Tight Rope

Gov. Ted Kulongoski explains how he balances Oregon's need for new industry with his state's commitment to sustainable development.



Governor Ted Kulongoski

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regon is as eager to welcome new industrial investment as the next state ... or is it? On balance, it certainly is, even if a steel plant would be met by a less enthusiastic welcoming committee than another high-tech R&D center would. Nevertheless, jobs are jobs, and the governor of any state wants a legacy that's heavy on job creation and improving his or her state's business climate for industries of all stripes. In late May, Governor Ted Kulongoski spoke with *Site Selection* Editor Mark Arend about how he reconciles the need for industrial job growth with an electorate that's transitioning to a service economy.

*SS: How accurate or inaccurate is the perception that Oregon is primarily open to "clean industry," like software development and microchip production?*

**TK:** We believe Oregon's reputation for being "green" is an asset to us. Some of the largest green-building manufacturing companies and architectural firms are here in Oregon. There are a number of things out here that I believe will help Oregon as we make the transition from a fossil-fuel economy eventually. But remember, Oregon has always had a manufacturing side to it. The timber industry, though not the same as it was 30 years ago, is still a very substantial and valuable part of this state's economy. The way the companies have survived all this transition is by embracing technology.

I don't see a distinction between low tech and high tech. All companies today, in order to be successful, have to embrace technology. Whether you're a wafer manufacturer or a heavy metals company, your success will depend upon technology.

I don't see much difference in trying to attract businesses here, be they high tech or low tech. In the area of alternative and renewable energy, I see this not only as an effort to answer a number of questions – climate change or trying to create an independent energy policy for this country – but it is also good economics to build a sustainable economy. I am trying to position Oregon to be the leader in the country on this. We want sustainable companies that are compatible with this state.

*SS: It sounds like you see Oregon playing a key role in renewable energy into the future.*

**TK:** [As we speak], the Senate is in session and will probably pass the 25 by 25 plan, which is a proposal that Oregon will get 25 percent of its energy by 2025 from alternative and renewable energy sources [*the measure passed – Ed.*]. That's probably the highest renewable portfolio standard in the country.



Gov. Kulongoski touring IdaTech, a developer of hydrogen fuel cells in Bend.

That, along with a series of other issues around biofuels and biomass and wave, solar and wind – there is a whole series of things we're doing here in terms of incentives for companies to come here, with the business energy tax credit system, for instance. We have had major success recently with SolarWorld AG [see the May 2006 issue, p. 406], which is building the largest photovoltaic solar-cell manufacturing facility in North America here in Oregon.

When this legislative session ends, there will be no state in the country that has made a greater effort at being the place to come to if you are interested in the research and development of alternative and renewable energy sources. I have worked very hard, both here in Oregon and across the Western region, to address the growing threat of global warming. In February, Washington, California, New Mexico and

Arizona joined us in launching a regional global warming initiative that will set clear targets for greenhouse gas emission reductions by the end of August and then adopt a regional cap and trade system to achieve those reductions by August 2008. The state of Utah has now joined that effort.

With these regional discussions, as well as those taking place at the national and international level, of implementing a cap-and-trade regime to achieve market-based emission reductions, we will be pioneering a new exchange or market for trading these emission credits. I am highly committed to making Oregon the location for that new exchange to complement our leadership on climate change and renewable energy.

*SS: To what extent would Oregon entertain interest from a major smokestack project, such as ThyssenKrupp's recently announced \$3.7-billion steel plant in southern Alabama?*

**TK:** We have a number of them – probably not of that magnitude, but [railcar manufacturer] Gunderson is here in Portland. [Gunderson is a unit of the Greenbrier Cos., based in Lake Oswego, Ore.; see the March 2007 issue.]



Officials participating in the groundbreaking ceremony for a Coos Bay pipeline.

We have quite a metals industry here, and a lot of people here do not even know how much vitality there is in this industry. We had a coal facility that was looking at locating in Coos Bay, over on the coast, a few years ago. It's not that I have a list of industries I would say "No" to. We will talk to any industry and find out if the facility is compatible. But is Oregon going to be a state that allows a company to come in that basically is going to create more harm to the quality of life here in terms of its environmental quality? I don't think the citizens would tolerate that.

*SS: At what point do you become involved in luring a project to Oregon?*

**TK:** Generally, I become involved very quickly. I may be the first governor [of Oregon] in maybe 20 years to take an active role in this area. I am a jobs person, and I think of legacy in terms of how many people I can provide with a good, living-wage job. For Oregon, the best thing I can do as governor is to always have a broader view and to get some very smart people from the private sector around me who can tell me where things are going to go in the next 20 or 30 or 40 years. It's hard to tell, because in a global

economy, as competitive as it is, you've got to stay ahead of the game and be flexible.

*SS: What is the status of the Industrial Lands Task Force you established in 2003? What changes have come about as a result of that effort?*

**TK:** The problem then was that under our land-use planning system, local governments were required to create industrial lands as well as commercial and residential. Over time, there was the pressure for the short-term return to have industrial lands reclassified as commercial so you could put box stores on them, and that pressure was pretty strong for a local community. They actually converted a lot of the industrial land to commercial, and when a company would come and want to locate someplace, they would find they didn't have the available land. So when I became the governor, we had the issue of trying to address whether we could get more industrial land sites around Oregon. It's been very successful.

Of all the things I've done on the economy, one of the things I take great pride in is this industrial lands issue. Cardinal Glass moved into an industrial site in Hood River. Google is in The Dalles right now, on the [Columbia River] Gorge. Lowe's has a major distribution site in Lebanon on an industrial land site. Genentech in Hillsboro plans to build a packaging facility, which will be a very important move in the biotechnology area for Oregon, when this company gets this facility up and going. So the program has proven its worth.

*SS: Please bring me up to date on any efforts to improve workers' comp costs in order to be more competitive and any tort reform measures under way if at all.*

**TK:** At another time in my life, an Oregon governor asked me to come here and reform the workers' compensation system. Oregon at that time – for a state that was about 30th in population – had the highest average premium rates of any state in the country. It was a tremendous detriment to the state. I undertook a reform effort and headed a group called the Mahonia Hall group, named after the Governor's residence. People asked why I held these meetings in the governor's residence, and I said it was the only place I could find with a 10-foot fence and armed guards around it to keep the interest groups out.

We put together a reform package, and the results have been substantial. There has not been a pure premium rate increase in Oregon since 1990. Oregon has moved from 1st place in workers' comp costs on a comparative listing of states to about 41st; we are now one of the most competitive states in the country on the workers' comp side. We have a program that not only serves the interest of employers, but it's been proven to be very beneficial for the employee, because we have increased benefits substantially. In fact, there was another 2.5-percent rate reduction this year in the pure premium rate. I don't get into a competitive battle with other states in the media, but the fact is that, compared to California, our rates are at least half what theirs are.

There is some activity on the tort reform side around the public sector. Oregon in the past has done some things around punitive damages and the issues of joint and several liability. Our Supreme Court struck down a tort cap limit about five years ago. That has not been revisited. As the former insurance commissioner, I know that insurance crises are cyclical and there will always be another one. But right now,



Toyota broke ground in late May on a \$6.5-million, 30,000-sq.-ft. (2,780-sq.-m.) distribution center at the Port of Portland. In September 2006, Toyota leased an additional 15 acres (6 hectares) at its 95-acre (38-hectare) auto-handling complex to accommodate higher volumes of automobiles arriving at the port. In 2006, more than 436,000 cars, including those made by Toyota, Honda and Hyundai, came through the port – 31 percent more than the previous year. "Our new facility doubles our building space footprint, enabling us to efficiently distribute cars to dealers in 31 states," says Ron Corbin, Toyota's Portland logistics services manager. The port recently modernized dock facilities to accommodate Honda's increasing volumes, as well. Honda distributes cars to 40 states Portland.

*Photo: Port of Portland*

both on medical malpractice and on the liability side, particularly the products-liability side, the market is rather stable.

*SS: The "Achieving the Oregon Shines Vision: 2007 Benchmark Report" overall was complimentary in most areas. But why is net job growth up but income is lower than in previous years? And why does the report refer to worker training in Oregon as an area of concern?*

**TK:** It is part of the transition that Oregon is moving through, from this very industrialized economy through the forest products industry to a technology- and service-centered industry in some areas. We are producing more jobs in this state, but a lot of those jobs are in the service sector, and they pay lower than what people commonly made in these other jobs in the wood products industry. To be candid, Oregon is still in the transition. Oregon is trying to become the area for research and development for these companies. Hewlett-Packard has its R&D in Corvallis for their printer division, and Intel has an awful lot of their R&D here in Oregon. On the manufacturing side, for all the plants that are built around the world, most of the technology and patents come out of here in Oregon.

We have a tremendous investment in nanotechnology. H-P has been a tremendous partner with us on the Oregon State University campus in Corvallis. We got into this when I became the governor and funded a signature research center called ONAMI – Oregon Nanoscience and Microtechnologies Institute. Hewlett-Packard was a major partner with us to get it off the ground and gave us a facility to get it going until we could build our own. There is a tremendous asset here in the northwest, the Pacific Northwest Regional Laboratory, a federal regional lab in Richland, Washington, which is near the Hanford site, and they are a partner with us.

One of the great byproducts of Intel and the technology industry here is that they have developed a very highly skilled work force, which is very compatible with this whole idea of development of renewable energy. Secondly, Oregon has this corporate tax structure around the single sales factor tax, which is very conducive to attracting companies here. We're competitive with other states in other areas, but what companies always come back to is work force. What they are looking to long term is what happens when technology changes – "How do we partner with the state to get the work force we need with the developing technologies?" Our community colleges are the center point of this.

**SS:** *Is it government's job or private industry's job to train workers?*

**TK:** It's primarily the private sector's responsibility. It's their business. But I believe very deeply that it is our business in government to be a partner with the private sector to be able to help these companies get up and have the opportunity to train these people. Companies have to put money away for development and retraining, but I understand how hard that is to do in a very competitive global economy. I would argue that in fact states have to be better partners than they were in the past so we can maintain a competitive edge.