

PDC

PORTLAND DEVELOPMENT COMMISSION

DATE: April 28, 2009

TO: Board of Commissioners

FROM: Bruce A. Warner, Executive Director

SUBJECT: Report Number 10-41
PDC's Business & Industry Division: Overview of City and State International Strategy

EXECUTIVE SUMMARY

BOARD ACTION REQUESTED

None — information only.

SUMMARY

The approval of Portland's Economic Development Strategy in July 2009 positioned the Portland Development Commission (PDC) for a renewed focus on job creation and economic growth. The strategy seeks to grow employment in the city by 10,000 net new jobs within five years by focusing its job growth and retention efforts on four traded sector clusters: clean technology (clean tech), activewear, software, and advanced manufacturing. The focus on traded sector clusters was intentional: only by expanding the regional economy through the sale of goods and services outside the region and U.S. can the Portland region grow the local economy and expand the pool of living wage jobs.

These four clusters were selected in part because of the global competitive advantage of the products and services offered by local companies, and because the competitive environment for firms in these industries in Portland is sufficient to attract additional foreign investment through the recruitment or expansion of companies outside of the U.S. to the Portland region.

This report provides an overview of PDC's strategic approach to promoting its clusters internationally. PDC and the City of Portland rely heavily on the resources provided by the State of Oregon, through the Oregon Business Development Department (OBDD), to achieve our international objectives, so an overview of OBDD's services and the integration of the City's and State's efforts are summarized as well. At the PDC Board of Commissioners meeting, OBDD representatives will join PDC staff in a presentation of our international strategy and will be available to answer additional questions about our partnership.

BACKGROUND

Why International?

- *Economic Impact*

With Oregon being the 24th largest exporting state in the U.S., trade plays a critical role in the growth of Portland's economy. Trade-related employment accounts for a third of total employment in the region, and over 44,000 jobs are attributable to foreign direct investment (FDI) in Oregon.¹ Traded sector industries, which account for 43 percent of all gross exports in the region, have a heightened impact on the regional economy; jobs in these industries average approximately \$50,000 per year, compared to the average wages in the region of \$44,000.²

Oregon export shipments increased from \$10.3 billion in 2003 to \$14.9 billion in 2009,³ despite a decline from \$19.3 billion in exports in 2008. The decline in exports in 2009 is predicted to be temporary trend, with the Obama Administration setting an ambitious goal of doubling U.S. exports in five years. The combined value of U.S. imports and exports increased from 28 percent of real gross domestic product (GDP) in 2001 to 33 percent in 2008. Trade's share of real GDP is projected to grow to 58 percent in 2030, up from 33 percent in 2008. As the hub for international trade in the state, the Portland region will benefit from the projected growth in exports.

Oregon's significant base of foreign investors accounts for 44,000 jobs, or 3 percent of Oregon's private-sector workforce. Over 25 percent, or 11,600, of these jobs are in manufacturing industries.⁴ Existing foreign investors, which include companies such as SolarWorld, Vestas, Iberdrola, and Li Ning, are a primary target for expansion opportunities in the Portland region.

- *Benefits to Small Businesses*

While international trade is typically associated with large, multinational companies, small and medium companies comprise the bulk of Oregon exporters. Of the nearly 5,000 companies that exported goods from Oregon in 2007, 88 percent of those were companies with fewer than 500 employees. These companies generated 34 percent of Oregon's total exports of goods in 2007.⁵

- *Pacific Rim Opportunity*

The Portland region is particularly well positioned to pursue strategic international initiatives. Portland resides on the Pacific Rim, the most dynamic regional economy in the world. The Pacific Rim is home to more than 2.7 billion people and represents approximately 54 percent of world GDP and 44 percent of world trade. Since 1989, Pacific Rim economies have experienced average annual GDP growth of 7 percent, versus 5 percent growth for the rest of world. Growth within Pacific Rim economies is projected to outpace global economic growth for the foreseeable future.⁶ In 2006, Pacific

¹ Organization for International Investment, <http://www.ofii.org/or.htm>

² U.S. Dept of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/>

³ U.S. Dept of Commerce, Bureau of Economic Analysis, <http://www.bea.gov/>

⁴ Organization for International Investment (www.ofii.org/or.htm)

⁵ U.S. Department of Commerce's International Trade Administration and Bureau of the Census, Foreign Trade Division

⁶ APEC at a Glance, 2009, Asia Pacific Economic Cooperation

Rim region exports accounted for 43 percent of world exports as compared to 34 percent of Atlantic-based exports.⁷ Portland's location on the Pacific Rim also provides the region with direct access to the manufacturing capacity that is vital to activewear and other industries.

- *Trade Infrastructure*

Portland operates the third largest U.S. marine port on the west coast and is the smallest population center on the west coast with deep-draft container ship service. Located in the middle of an \$18 billion annual flow of goods on the Columbia/Snake river system and on the Pacific Rim, the port offers regional businesses direct, low-cost freight transportation to the vast U.S. interior and destinations throughout Asia.⁸

Portland is one of only 12 U.S. cities, and by far the smallest, to have non-stop international air service to both Asia and Europe. These direct links are vital for companies with operations on other continents.

Approach

PDC and the City of Portland have historically worked with OBDD and the Port of Portland to help local firms sell abroad and attract foreign investment. These efforts have taken the form of direct export assistance to firms, trade representatives in targeted foreign markets, trade missions by public and private officials to promote Portland and Oregon firms and industries, direct recruitment efforts for companies seeking to relocate or establish a U.S. presence, and participation in industry trade shows outside the U.S.

Ideally, the City and State would have robust activities in each of these categories to implement an effective international strategy. Resource constraints, however, require a targeted strategy. In addition, measuring the effectiveness of certain international activities is often elusive and requires a judicious use of time and money toward international efforts.

The cluster approach provides a strategic context to the City's international efforts; tailoring the work to fit the priorities of each cluster necessarily limits the scope of the City's international work and provides a context for answering essential questions about where to focus our work.

Strategy Objectives

The objectives of PDC's international strategy are to:

- 1) Retain and create jobs through expanded sales and increased investment in the regional economy;
- 2) Promote Portland and Oregon in international markets to increase the brand recognition and export potential for Portland firms, and promote the Portland region as a location for investment;
- 3) Provide direct assistance to Portland and Oregon companies seeking to export their products and services, focusing on firms with expertise in sustainability across all target clusters and supplying the growing worldwide demand for clean tech products, components, and services;

⁷ Pacific Rim Institute, LLC

⁸ Port of Portland

- 4) Promote foreign direct investment in Portland and Oregon; and
- 5) Position Portland as a global source of talent for the region’s target clusters.

The City of Portland will implement an international trade and investment strategy, in coordination with the State, Port of Portland, Regional Partners, and Greenlight Greater Portland, that incorporates the following elements:

- Targeted Business Development Visits – The City, in partnership with the State and other partners, will engage in selective cluster development trips based on opportunities identified to grow a cluster supply chain or ecosystem. These trips offer the opportunity to (1) support Portland companies that wish to attend trade shows or build relationships in other markets, and (2) promote the Portland region as a premier global city for Clean Tech and Activewear companies. Below is a potential 12-month schedule of targeted business development trips for the Clean Tech and Activewear clusters:⁹

Proposed Activity	Cluster (s)	Location	Date
European OUTDOOR trade show	Activewear	Friedrichshafen, Germany	July 2010
Asian flyout	EV/Energy/Activewear	China/Korea/Taiwan/Japan	Fall 2010
European flyout	Green Development	Germany/Austria	Fall/Winter 2010
European Flyout	Wind/Activewear	Wind Energy Show (Location TBD)/ Activewear: London, Eindhoven	Spring 2011

- Trade Missions – The City and State, led by the Mayor and Governor, will continue to undertake 3 to 5 trade missions each year. These trips promote the Portland region and achieve strategic objectives for specific clusters, including recruitment opportunities and attraction of foreign investors.
- Targeted trade shows – Trade shows are a major source of investment leads both domestically and globally. By partnering with OBDD, Greenlight Greater Portland, the Port of Portland, Portland General Electric, and other municipalities in the region through Team Oregon, the City can leverage limited trade show dollars and maximize its annual participation in trade shows for the target clusters.
- Trade Representatives – The State of Oregon maintains trade representatives in Japan, Korea, China, and Europe. These regions represent the most fertile international markets for Oregon exports and demonstrate a significant return on investment for the State. The City relies heavily on the State’s trade representatives and in some cases pays for the services of these representatives for targeted business development trips.
- Export Assistance – PDC will continue to rely extensively on OBDD’s suite of export assistance programs, including its Oregon Trade Promotion program and export training seminars, to help local firms promote their products and services outside the U.S.

⁹ Targeted Business Development trips are highly dependent on budget and staff availability.

- International Marketing Partners – PDC participates in a collaborative process for producing and disseminating coordinated marketing materials for international promotion. The Port of Portland, Regional Partners/Greenlight Greater Portland, and Team Oregon are partners.
- Maintenance of Portland's direct air service to Asia and Europe – Direct air service, maintained through the leadership of the PDX International Air Service Committee, is critical to maintaining the city's attractiveness to foreign investors and companies with global scope.
- International road show – The road show matches Portland's export-ready small businesses with the foreign representatives capable of helping them find partners in these major international markets to assist in increasing export sales.

FINANCIAL IMPACT

In FY 2010-11, PDC will dedicate 0.5 FTE to supporting the international work of the agency. This staff work is in addition to the time devoted to international initiatives by the Clean Tech and Activewear Cluster staff, which is estimated at an additional 0.5 FTE.

In FY 2009-10, PDC allocated \$50,000 from its general fund allocation to fund non-personnel expenses associated with its international work. Given the likely reduction in the general fund appropriation for economic development, staff projects that only \$25,000 will be available in FY 2010-11.

TARGETED CLUSTER STRATEGIES

Activewear

Portland area activewear companies are predominantly engaged in design, development, marketing, distribution, sourcing, retail, and corporate offices. Most manufacturing and material sourcing is done in Asia. In addition, many firms in this industry are international-based on the supply chain, with a global customer base largely driven by e-commerce.

The Portland region is home to some of today's leading companies in the field of activewear and outdoor gear, employing over 11,000 people with average annual wages of \$53,000¹⁰ and a total payroll of \$1 billion.¹¹ Many of these firms (92 percent) are small businesses with fewer than 20 employees.¹² Portland's cycling industry alone generates annual economic activity of \$63M – 61 percent from the retail sector – and employs 600-800 people.¹³ Because of our deep talent pool, lifestyle, diverse recreational opportunities, affordability, and proximity to Asia, many activewear and outdoor gear companies find Portland is an ideal place to locate.

¹⁰ Although the total employment is reported above for a four-county region, the wage measurement for this geographic area skews high at \$92,000 because of the high wages reported in the industry that includes Nike in Washington County. Therefore, the wage reported in this report is based on Multnomah County only, at \$53,000.

¹¹ PDC Location Quotient report generated on 3/31/2010 for Clackamas, Clark, Multnomah, and Washington counties for NAICS 315, 3162, 33992, 42391, 4243, 5414, 3322, and 336991.

¹² City of Portland Economic Development Strategy, 2009

¹³ according to a 2006 Study by Alta Planning & Design

PDC is dedicated to deepening this pool by supporting the local business climate to allow local companies to grow, and by recruiting new companies and talent to the region in order to strengthen our capacity to excel.

The Activewear industry is characterized by frequent mergers, acquisitions, and conglomerates that own and operate several brands or branches globally. Portland's international strategy for the activewear cluster hinges on capitalizing on these relationships to attract investment and job growth for Portland.

Action Items

1. Attract activewear companies with an existing connection to Portland, including (a) brands and divisions located outside Portland that have affiliated companies and brands present in Portland; (b) companies led by executives with Portland ties (work experience, family, etc.); and (c) companies and brands that have difficulty recruiting talent in their current location.
2. Assist Portland area companies that want to expand the sale of their goods and services to international markets. PDC's primary role would be to educate small, start-up, and medium sized activewear firms about the programs available, including potential funding sources, through the aforementioned partners as well as the Export-Import Bank. Examples of support could include matching grant programs to help small firms attend international trade shows, and funding an Oregon Booth with Team Oregon to provide visibility for a number of small Oregon firms.
3. Promote foreign direct Investment in the Portland region by (a) highlighting Portland as the West Coast epicenter for design through the launch of the Portland Center for Design and Innovation; (b) developing a proposal for the Chinese government and Toyota to partner with the Portland Center for Design and Innovation; and (c) identifying a priority list of sites and programs for potential redevelopment in the City of Portland.
4. Identify opportunities to bring manufacturing back onshore. Small, boutique, and independent designers in apparel and footwear may be able to reach economies of scale by cooperating on supply issues. Local production also has the potential to be a selling point for firms considering relocating to Portland.

Clean Tech

Portland clean tech companies are predominantly engaged in engineering, design, development, finance, corporate offices, and manufacturing. The bulk of the jobs within the region's clean tech industries are white-collar jobs. Most manufacturing has been limited to solar products that are integrated into green building as well as utility scale projects, while recently existing manufacturers have been diversifying into wind components.

The Portland region has notable global firms in the clean tech industry, including Iberdrola, Vestas, SolarWorld, McKinstry, Gerding Edlen, SERA Architects, ZGF, Glumac Engineering, Green Building Services, and Solaicx. Portland's three clean tech clusters are:

- Electric Vehicle/Energy Storage: companies that design or develop electric vehicles, energy storage technology, vehicle charging infrastructure as well as components and industry specific consultants.

- Green Development: firms and organizations that provide technologies, materials, and services for residential, commercial, industrial, and institutional buildings.
- Wind Manufacturing: Oregon has the opportunity to capture investment and jobs in manufacturing, high tech, and services that supply this industry because of our reputation, aggressive renewable portfolio standard, expertise in metal manufacturing for large metal components, and cluster of wind firms already established in this region.

Action Items

1. PDC will pursue three categories of Electric Vehicle opportunities: battery research, development, and manufacturing; niche electric vehicle and component manufacturing; and product launch.

Companies with upcoming product launches will consider Portland as an ideal launch destination. Portland has already successfully established itself as one of the leading North American launch destinations for Japanese manufacturers (Nissan, Mitsubishi, and Toyota). The manufacturers listed in Attachment A will be targeted to consider Portland as a launch destination.

2. Distinguish Portland in the eyes of leading global energy efficiency companies as the premier place to develop and launch products and services for the U.S. market.

The combination of (a) being an early adopter of green building practices as well as leadership in LEED certifications, (b) Portland's deep professional expertise in deploying efficiency on a large scale, (c) rapid deployment of energy efficiency retrofits, and (d) the opportunity presented by the Oregon Sustainability Center.

3. Assist clean tech firms with a demonstrated potential for exports.

PDC will focus on working with firms that have shown export potential with a particular focus on the electric vehicle and green development firms. Many of Oregon's electric vehicle pioneers are developing products that will have demand outside the U.S. The focus of green development services is to export the expertise of local firms outside the country, with Asia (China) and the Middle East being key International targets.

4. Target leading international companies that are deploying innovative energy efficiency and green development products and expanding into the U.S. market for consideration of Portland as an entry point. The firms in Attachment B have been identified as targets.

Advanced Manufacturing

Portland's Advanced Manufacturing cluster is the most internationally focused of the four clusters. This cluster is driven primarily by businesses involved with metals and transportation equipment that utilize high technology tools, including engineering and computing, for the purpose of producing a product or part, or for enhancing manufacturing capabilities. Advanced manufacturing technology is used in all areas of manufacturing, including design, fabrication, and assembly.

This industry has long relied on exports to generate job growth; almost 24 percent of all manufacturing workers in Oregon depend on exports for their jobs. Export-supported jobs

linked to manufacturing account for an estimated 7.8 percent of Oregon's total private-sector employment.¹⁴

In addition, foreign direct investment in Oregon, through U.S. subsidiaries of multinational companies, supports 11,600 manufacturing jobs, representing almost 6 percent of manufacturing jobs in Oregon. U.S. subsidiaries' employment in Oregon is heavily concentrated in manufacturing. Over 25 percent of these jobs are in manufacturing industries.¹⁵

Action Items

1. Assist Advanced Manufacturing firms with a demonstrated potential for exports.

A range of manufacturing industries, including computer electronics, machinery, and transportation equipment, represent some of the most active export industries in Oregon. PDC will help identify cluster firms with export potential and connect those firms with state and federal export assistance.

2. Promote Portland's base of manufacturing firms as a draw for international firms seeking to expand in the U.S.

Through trade missions and other promotional activities, PDC will educate potential investors about the supply chain capacity and talent pool that exists within the region's manufacturing base. While PDC will not engage in targeted recruitment of manufacturing firms, providing exposure to the region's manufacturing base will help draw interest from firms seeking a U.S. location with a readily available supply chain.

3. Increase Portland's capacity to manufacture parts for the northwest wind industry and possibly the wind market in California. Connecting OEMs (Original Equipment Manufacturers) will shorten the supply chain and support Oregon's existing manufacturing cluster.

Determine major foreign wind turbine manufacturers that are expanding their operations in the U.S. and projected component needs. This will identify opportunities to explore whether Portland's existing manufacturers can retool to provide parts.

ATTACHMENTS:

- A. Electric Vehicle/Energy Storage Target Firms
- B. Green Development Target Firms

¹⁴ U.S. Department of Commerce's International Trade Administration and Bureau of the Census

¹⁵ Organization for International Investment (www.ofii.org/or.htm)

Electric Vehicle/Energy Storage Target Firms

Firm	Country	Product/Service
E3 Car Project/Infineon Technologies	Neubiberg, Germany	
SB (Samsung/Bosch) LiMotive Company	Stuttgart, Germany	Li-ion batteries
BMW	Munich, Germany	EV automobile
BYD Automotive (Connection to Pacificorp)	China	EV automobile
Daimler- Smart EV	Germany (production in France)	EV automobile
Sanyo Batteries (tie in to solar manufacturing in Salem)	Japan	Li-ion batteries
Sanyo Electric Bicycles (has already donated a bike to the City)	Japan	Electric bicycle
Phisiang (PHET)	Taiwan	

Green Development Target Firms

Firm	Country	Product/Service
Sanyo Homes	Japan	Green housing
Sanyo Eneos (2013 decision)	Japan	Thin-film solar
Project Reddy	San Jose, CA	Thin-film solar
Asahi Glass	Japan	Solar glass
CentroSolar – glass division	Germany	Solar glass
Sapa Portland (diversification of current offerings)	Sweden	Aluminum for solar mounting systems
Ulbrich	Germany	Wire for solar industry
Carmanah Technologies	Canada	LED lighting manufacturer
PFB Corporation	Canada	Manufactures insulated concrete forms and structural insulating panels
RuggedCom	Canada	Smartgrid infrastructure manufacturer
China High Speed Transmission Equipment Group	China	Electricity transmission equipment manufacturer
Schneider Electric	France	Manufactures technologies for building energy management and smart grid
Veolia Environment SA	France	Provides building management services and installs climate control equipment
Lüfta (or Luefta)	Germany	Heat recovery systems for buildings
Pazen Fenster + Technik	Germany	Manufactures high efficiency windows for passive houses
Porextherm	Germany	Manufactures high-performing thin insulation
Siemens	Germany	Building, industrial and utility energy-management technologies and services
Kingspan Group	Ireland	Manufactures energy efficient building products and systems
Optiwin	Ireland	Manufactures high efficiency wood windows and doors for passive houses
Telvent	Spain	Develops IT solutions applicable to smart grids
ABB	Switzerland	Industrial and utility technologies and infrastructure
Grontmij	The Netherlands	Design and engineering consultants
Royal Philips Electronics	The Netherlands	Efficient lighting