8. METALS

Oregon has a diverse metals industry, including manufacturers of primary commodity and specialty metals, metalworking and machine shops, and producers of specialized machinery, transportation equipment, and investment castings. It is a highly important sector, which exports much of its product and pays its employees well. In 1987, the industry provided 39,000 jobs, with an average annual wage of $26,700. Well over 90 percent of the industry's output is to out-of-state buyers, and 90 percent of the companies are owned locally.

Most metals and metalworking companies are in a mature, highly cyclical industry characterized by low profit margins, national overcapacity, and intense foreign and domestic competition. The recession of the 1980s led to a number of closures and retrenchments. Those who have survived have done so through innovation, good management, and aggressive marketing. In addition, they have had to deal with escalating energy costs, high wages, workers compensation rates, and high transportation costs.

As with forest products and agriculture, as well as other Oregon industries, a very high percentage of the metals industry markets are in distant locations. However, *unlike* the resource-based industries, much of the metals industry must also transport most of its raw materials from distant sources or pay high prices for scrap metals. These added shipping costs place Oregon metals companies at a comparative disadvantage with companies closer to major markets or raw materials.

Therefore, it is crucial for the long-term health of Oregon's metals industry that the State take special efforts to maintain cost advantages within the control of State policy, including energy rates, workers compensation, and corporate taxes. In particular, energy rates historically have been a major comparative advantage. That advantage has eroded over the past decade, and measures are needed to restore it. (See Part II, Cost Containment.)

Vision

Oregon will increase the diversity and size of its industrial base over the next decade, and a strong metals and metalworking industry play an essential role in that effort. By continuing to cut costs and by staying aggressive, the metals industry will expand to provide more jobs and bring more income to Oregon. In addition, this high quality, competitive industry will supply other Oregon industries with a range of products, including structural steel, the next generation of wood and food processing machines, parts for airplane engines, and materials for high tech manufacturing.

Strategy To Achieve the Vision

To maintain competitiveness or expand in the future, the metals industry will require:

- Continual investment in new equipment and processing capabilities
- Continued development of new technologies
- Expansion of markets for existing products and development of new products
- Continued advances in productivity and quality control
- Reductions of business costs
- A well-educated, well-trained work force.

Metals industry success will depend vitally on how well Oregon succeeds in holding down costs of business, especially workers compensation and energy rates. In addition, a partnership to strengthen research and development and to train workers would benefit the industry.

The metals industry stresses that it is the combination of actions that will promote industry growth within Oregon. To provide a climate for expansion requires some progress in a number of areas, not drastic action in any.

Actions To Implement the Strategy

- The Public Utility Commission should regulate to offer industrial customers a variety of energy options at cost of service (See cost containment sections for details).
- Energy rates for electricity and natural gas should be "unbundled" to reflect true generating costs.
- Policies should be adopted to insure that industrial customers do not subsidize residential or commercial customers.
- During periods of excess supply, electric utilities should be encouraged to market excess power within Oregon before selling it out of state at variable costs.
- Utilities should be required to provide services to industrial customers which will insure reliable supply of power.

- The Department of Revenue should seek tax legislation in order to:
  - Continue pollution abatement and energy conservation tax credits beyond 1990
  - Provide an investment tax credit for large capital expenditures, particularly to upgrade technology or processing capability
  - Bring Oregon tax law in line with federal tax law to allow for net operating loss carryback.
- Through the Governor's Office, the State should appoint a transportation ombudsman to work with metals as well as other industry groups on rail, port, and other transportation issues to improve services from Oregon.
- The Economic Development Department should facilitate discussion with the Bureau of Labor and Industries and with metals industry representatives to increase the use of apprenticeship programs.
- The Economic Development Department and the Governor's Office should continue to facilitate discussions between the metals industry and the community colleges and the Oregon Institute of Technology to develop metals industry training programs.
- The Office of Educational Policy and Planning should facilitate a joint effort between the Metals Industry Council and the State System of Higher Education to develop technical degree programs to meet industry needs.
- The Economic Development Department and the Governor's office should continue to facilitate a closer working relationship between the Oregon Graduate Center and the metals industry, in order to stimulate applied technology research.
- The Bureau of Mines should expand its research programs to include companies outside the Albany area and those in low-temperature materials.
- The State, through the Science Council, should provide a way to increase contacts and joint projects between industry and state universities.
- The State should look for opportunities to develop a center in advanced metals research.

- The Economic Development Department should aggressively market the umbrella public financing programs to manufacturing firms.