

1. MOVING FORWARD INTO 2008

In keeping with the theme of this year's Leadership Summit, the Oregon Business Plan is *moving forward* on a number of fronts. As envisioned in our first summit five years ago, our industries are making great progress in organizing as competitive clusters, and the business and public sector leaders involved in the Business Plan continue to gain traction on important policy initiatives. The past three legislative sessions have adopted many Business Plan recommendations, and 2007 was especially productive. The Governor and Legislature made a series of targeted investments to expand access and improve quality all along the education continuum, including Head Start, the Oregon Opportunity Fund, and engineering. The Legislature created a new reserve fund to protect Oregon public services during the next economic downturn. It adopted a promising framework to reduce costs and increase access to health care. And it expanded Connect Oregon to address critical freight-related transportation improvements.

The Business Plan is evolving to reflect and focus Oregon's emerging competitive advantage in green products and services, business process, public policy, and expertise.

This summit sets up our work in 2008, further building out our clusters and preparing policy initiatives for the 2009 Legislature. Given a healthy economy (see adjacent snapshot), strong state revenues, and a sense of momentum from the last session, Oregon itself is moving forward with confidence and purpose. We have greater freedom to take actions and make investments that will strengthen our economic competitiveness over the decades ahead.

The Green Advantage

This summit also marks a significant refinement in the framework of the Oregon Business Plan. This year we are incorporating into the Plan what we believe can become Oregon's distinct competitive advantage: its leadership in environmentally conscious products and services, business process, public policy, and expertise.

Nurturing and extending this green lead could be thought of as Business Plan 2.0, and that would be a fair distinction. But this is not a departure from the past five years. In fact, it adds to and sharpens what we have been doing all along. Business Plan 2.0 still promotes strong traded-sector clusters buoyed by leading-edge innovation, and it advocates policies that support cluster success and a competitive economy. It acknowledges, however, that most of our clusters in one way or another add green value

OREGON'S ECONOMY – A SNAPSHOT

- Statewide employment has reached a new peak of 1.73 million. After top growth in the two previous years, it has settled down to the national average (about 1.3 percent) in 2007.
- Oregon's unemployment is tenth in the nation, 5.4 percent, versus the national average of 4.6 percent. It has been pushed up in part by strong in-migration of people without jobs.
- Between 2005 and 2006, Oregon had the nation's ninth fastest rate of net domestic in-migration, at 1.2 percent, more than 41,000 new residents yearly.
- Per capita income, a key benchmark of economic health, grew to a new high of \$33,252 in 2006, but still 9 percent below the national average and 27th among the states.
- Oregon exports, a marker for traded-sector health, reached a new high in 2007, running at a \$16 billion annual rate through Q2 2007, up 8.7 percent over the year before.
- From 2003 to 2006, Oregon's net rate of new business formations rose to 8.9 percent, seventh fastest in the nation.
- The state economic forecast predicts that Oregon will outperform the nation for the next five years.

to their products and services, and with some of our newer clusters, the products and services themselves are green. It also acknowledges that many of Oregon’s core values and public policies are environmentally progressive. They enhance our green reputation and competitive advantage.

The timing for greening Oregon’s economic development strategy could not be more opportune or urgent. We face a confluence of rising energy costs, uncertainty over energy supplies, Americans’ desire for energy independence, global climate change, regulation of greenhouse gas emissions, a mobile workforce that picks “place” first*, and a rapidly growing consumer base that factors sustainability into what it buys** With grant support from the Meyer Memorial Trust, we have sounded businesses across Oregon this past year about how they are responding to this opportunity, and how the Business Plan can help. Business Plan 2.0 will continue that conversation.

This green evolution in the Business Plan is a natural extension of where we started five years ago, when we met at the first Leadership Summit in the depth of the last recession. With the goal of creating more quality jobs for Oregonians, the original Oregon Business Plan laid out this vision:

To revitalize and sustain the Oregon economy, we should position Oregon in fact and reputation as a state unique in its passion and ability to nurture clusters of innovative industries. This includes clusters we have already, those we can attract and those we can build from scratch. It includes clusters in new technologies as well as traditional industries producing new products in new ways.

In the face of intense global competition, where routine commodity products migrate to low-wage, low cost locations around the world, we envisioned a path defined by “thriving businesses that lead their industries in ideas, innovation and design, market reach and staying power.” The plan recognized that knowledge and talent networked across a community creates economic activity that resists migration and sustains local communities and economies.

With this vision for the economy in mind, we asked industry leaders in a range of businesses across the state what broad conditions in Oregon would give their firms a competitive advantage. The answer that came back was consistent: Pursue a balanced and comprehensive

OREGON BUSINESS PLAN 1.0

GOAL

Quality jobs for Oregonians

VISION FOR THE ECONOMY

Develop leading-edge traded sector industry clusters

STRATEGY – FOUR Ps FOR PROSPERITY

- Pioneering Innovation
- People
- Place
- Productivity

INITIATIVES

- Economic Innovation
- Public Finance
- Education/Workforce
- Health Care
- Transportation

* A 2006 survey conducted by the Segmentation Company notes that among well-educated 25- to 34-year-olds, 64 percent pick a place to live first, then find a job while 36 percent take a good job wherever it leads them.

** A 2006 study by the Natural Marketing Institute (NMI) reports that the \$200 billion-plus industry that caters to consumers oriented to a health and sustainability lifestyle is on track to jump to \$420 billion in just three years and then soar to \$845 billion by 2015.

strategy that will enable existing industry clusters to thrive and new clusters to emerge. The strategy calls for nurturing and achieving what we call Four Ps for Prosperity.

- **Pioneering Innovation** – a culture of research, innovation, entrepreneurship
- **People** – well-educated, capable people and education systems to sustain their skills
- **Place** – quality of life, good public services, attractive communities and environment to retain and attract talented people
- **Productivity** – good physical infrastructure and resources, reasonable business costs.

To achieve the Four Ps, the Business Plan promotes a range of policy initiatives designed to mitigate weaknesses or improve our advantages in innovation, human talent, quality of place, and in public infrastructure and business costs that impact productivity.

This framework has proved to be durable and reliable. It has helped Oregon to take the lead nationally and internationally in focusing economic development policy on support for industry clusters. It has also helped Oregon business and public officials work together on a broad array of policy initiatives to strengthen the Four Ps.

Porter's Appraisal

In his address to the January 2006 Leadership Summit, Harvard Professor Michael Porter, an authority on regional competitiveness, complimented the direction of our cluster work and policy initiatives. Yet they aren't enough, he said. Referring to his studies of competitiveness among nations and regions, Porter said it isn't sufficient just to build clusters and improve the conditions for economic success.

You've also got to identify [your] strengths and try to build on them. So far in this [Business Plan] effort, we've been focusing more on mitigating weaknesses. Now we have an inflection point... where we've got to focus on articulating [a] unique regional strategy ... unique regional value proposition.

Oregon should find ways to translate its reputation for sustainability into a key competitive advantage.

A policy and regulatory framework that is both pro-business and pro-sustainability would be epic.

— Dr. Michael Porter

Pondering what makes Oregon unique – and a potential economic magnet – Porter suggested Oregon should find ways to translate its reputation for environmental sustainability into a distinct competitive advantage. Developing a policy and regulatory framework that is both pro-business and pro-sustainability, he said, would be “epic.”

At last year's Leadership Summit, taking Porter's suggestion, the Oregon Business Plan Steering Committee proposed that Oregon establish itself as a leader in sustainable practices as a way to give our state and its firms an edge. The response by those assembled was overwhelmingly positive, and since then we've found widespread agreement with this direction among experts, business leaders, and citizens around the state. Our businesses, government agencies, academic institutions, and nonprofits are already well out ahead in the pursuit of sustainability, notably in green products, services, expertise, and policy advocacy, so this evolution of the Business Plan reflects and focuses what is already happening.

The Opportunity in Business Plan 2.0

Growth in regional economies around the world is putting tremendous pressure on resources and the environment, and this growth is likely at its present rate to be unsustainable. Western economies are bumping up against new constraints as they cope with dependence on external energy sources, uncertain energy prices, loss of wetlands and open space, conversion of forest and agricultural land for development, and regulation. Consumers are becoming more conscious of these environmental concerns as they select products and services, and more importantly, there is likely to be a new wave of regulation intended to halt environmental degradation, encourage energy efficiency, and make better use of land and public infrastructure.

Evolving resource limitations, market forces, and regulatory policies create a powerful opportunity for economies built on sustainability. They will better navigate emerging constraints in resources and regulation by reducing their environmental footprint, making better use of raw material, producing products more efficiently, and reducing costs and improving margins. At the same time, they will tap growing markets where sustainable practices and products appeal to customers. What they learn and produce in achieving this advantage will become marketable itself. So, there is now a race on to achieve this stature and capability, and the rewards to the winners will be substantial.

We think Oregon should be one of those winners.

Oregon already has a head start, and it should leverage and sustain that lead. If it does, we believe that Oregon will be a place where innovative companies and talented people flock and where traded-sector clusters beat their competitors in operating efficiencies, waste and cost reduction, and sales.

That's our vision of Business Plan 2.0. It meets the criteria that Dr. Porter describes as essential for a competitive regional economic strategy: 1) a distinct value proposition, 2) a regional business environment – including institutions and policies – that supports the value proposition, and 3) a commitment to maintain parity in best business and economic practices.

Why We Think Oregon Can Lead

Of course, many places are now jumping on the sustainability bandwagon and many places are making legitimate efforts to reduce their environmental footprint. What gives Oregon the edge?

OREGON'S GREEN EDGE

Here is a sample of factors that position Oregon well to be a global leader in sustainable development:

- An unusually high concentration of supporting institutions, knowledge, and services in sustainability. These include the national headquarters of the Natural Step, the Food Alliance, the Green Electronics Council, and the Climate Trust.
- Choosy customers who foreshadow global market trends. Oregon has more hybrid ownership, more green buildings, more renewable power customers than anywhere else in the country.
- Geographic endowments. The Oregon landscape is well suited for renewable energy projects, and its sweeping beauty and recreation opportunities attract talent to the region.
- Policy leadership. Examples include land use planning, sustainable forest practices, recycling, and business energy tax credits.
- Brand leadership. Oregon has a worldwide reputation for sustainable policies and development.
- Business leadership and investment. Companies such as Nike and Intel are world leaders in incorporating sustainability, and Oregon is seeing a boom in green building and other green clusters.

There are many answers to that question, but the first is that it's in our culture. Long before it was fashionable, Oregonians embraced everything from recycling to reforestation to sustainable urban design.

The next answer is Oregon's quality as a place, cited in focus groups and polls as our best economic asset. A well-cared-for place attracts people who care about place and preserving its values. It's no accident that schools of land use planning and urban design around the globe look to Oregon for leadership, or that foresters from around the world come to learn about Oregon's forest practices.

As entrepreneurs, consumers and citizens we're ahead of the curve. An interlocking and reinforcing set of attitudes, policies, experience and knowledge put us farther along the path of figuring out how to integrate sustainability into our way of life. A widespread interest in and support for sustainability produces the kind of shared insights and mutually reinforcing actions that make this, more than any other place in the nation, and more than most places in the world, a hotbed of innovation in a wide range of sustainable policies.

The burgeoning market for green products and services will offer plenty of opportunities for business and job creation.

None of this is to say that Oregon plans, or expects to have a monopoly on sustainable practices or businesses. But the burgeoning market for green products and services – and the likely regulation that will continue to expand those markets – will offer plenty of opportunities for business and job creation.

Our discussions with Oregon businesses over the past year have validated the market potential of a sustainability strategy. The economic benefits to gain from sustainability include selling entirely new products that incorporate sustainability (such as wave energy), providing services (such as architectural design and planning that go into green buildings), and developing better processes that reduce business costs and position our companies well to deal with potential regulation.

Yet building a more sustainable economy extends beyond business. Oregon's consumers, with their strong interest in sustainability, constitute a critical initial market for green businesses, playing a role that Michael Porter calls "demanding customers" who prompt innovative products and services. Similarly, the state's public policy environment creates the institutions and incentives that enable and encourage sustainability.

Our relatively small size and good communication across sectors (as evidenced by the Oregon Business Plan process itself) are also advantages in innovating policies and acting on business opportunities in sustainability.

What Stays the Same, What Changes With Business Plan 2.0

A green Oregon Business Plan enhances but does not alter our basic ongoing work: supporting the growth of traded-sector clusters and promoting public policies and investments that foster favorable business conditions for cluster success. That means we will continue to promote sound fiscal policies, strong education and workforce programs, a culture and infrastructure of innovation, affordable quality health care, and a reliable transportation infrastructure.

Based on interviews with business leaders during 2007 the priorities we have been addressing all along remain critical for enhancing conditions for economic prosperity across all clusters. Going forward, however, we will be looking for opportunities in all of these activities to capitalize on sustainability as a competitive advantage. For example:

Sustainability in Cluster Development. We should be especially alert to emerging clusters that address global environmental challenges. For example, Oregon is taking the lead in green building, with Oregon-based firms exporting their expertise on projects well outside our borders. Another example is the surging growth of solar equipment design and manufacturing in Oregon. As part of our larger strategy, we should be particularly alert to nurture these emerging clusters. Wave energy offers an example. The Oregon coastline has promising sites for wave energy development and there is considerable expertise at hand in this technology, particularly at Oregon State University. Oregon InC recommended, and the Legislature approved, funds to develop opportunities in this promising cluster.

Sustainability is reflected in this year's *Cluster Resource Guide*, a companion document prepared for the Leadership Summit. As we sought input from clusters, we paid special attention to the emerging green industry clusters.

Sustainability as a factor in current initiatives. For each of the major Business Plan initiatives, we now need to focus on how the initiative can enhance our position in sustainability and green development. For example, Oregon has committed to a broad initiative to enhance our capacity for innovation through the work of the Oregon Innovation Council. This past two years, the work of the Council has already been sharpened to focus on innovation that specifically relates to sustainability. The wave energy initiative described above is just one example. In addition, Oregon Inc sought and received funding for building a signature research center on sustainability in the Oregon University System, the Bio-Economy and Sustainable Technology Center (BEST) and a variety of initiatives that support the vision of Oregon Business Plan 2.0.

Transportation, a lead topic in this year's summit, illustrates the linkage of a bread-and-butter infrastructure issue and sustainability. Of all modern infrastructure, highways, bridges, and streets probably get the hardest prolonged use. In Oregon's case, this is accelerated as the population and economy grow at a strong pace. Against this growing use of our road infrastructure we are falling behind in upkeep, congestion is mounting, and travel delays are becoming a growing, daily fact of life. This lag in road system upkeep puts our industries and economy statewide at a competitive disadvantage, and it impairs our quality of life.

The transportation initiative this year calls for a fresh look at transportation system design, operation, and governance.

Oregon needs to face this transportation challenge. As we do so, we need to make transportation choices aimed to improve mobility for individuals and for commerce, *and* we must do so in a way that will reduce our carbon footprint without sacrificing other environmental values. Oregon has a long history of innovation in transportation. In the face of these challenge, however, the transportation initiative this year calls for a fresh look at transportation system design, operation, and governance.

In education and workforce preparation, we need to build sustainability principles and practices into the curriculum. Oregon’s universities and community colleges already are leaders in sustainability education, according to work completed by the Academic Excellence and Economic Development Working Group commissioned by the Oregon State Board of Higher Education. We should build on this lead.

Sustainability also is fundamental to our vision for public finance in Oregon. The basic premise in the Business Plan, illustrated in the virtuous circle on page 10, is that a strong economy pays for vital public services. In turn, quality services in areas such as education, physical infrastructure, and public safety form the foundation for a healthy economy. All our public finance recommendations build upon this principle.

GREEN ADVANTAGE IN THE OREGON BUSINESS PLAN

OREGON BUSINESS PLAN 1.0	OREGON BUSINESS PLAN 2.0
<p style="text-align: center;"><u>GOAL</u></p> <p>Quality jobs for Oregonians</p>	<p style="text-align: center;"><u>OREGON SHINES GOALS</u></p> <ul style="list-style-type: none"> ● Jobs ● Environment ● Community
<p style="text-align: center;"><u>VISION FOR THE ECONOMY</u></p> <p>Develop leading-edge traded sector industry clusters</p>	<p style="text-align: center;"><u>VISION FOR THE ECONOMY</u></p> <p>Leading-edge traded sector clusters</p> <ul style="list-style-type: none"> ● Forestry, agriculture and other resource clusters globally recognized for environmentally sustainable practices ● High technology, sports apparel, manufacturing and other clusters known for sustainable products, practices, or both to improve bottom line while enhancing environment and community ● New “green” clusters to in renewable energy, conservation services, and green design flourish here
<p style="text-align: center;"><u>STRATEGY – FOUR Ps FOR PROSPERITY</u></p> <ul style="list-style-type: none"> ● Pioneering Innovation ● People ● Place ● Productivity 	<p style="text-align: center;"><u>STRATEGY – FOUR Ps FOR SUSTAINABLE PROSPERITY</u></p> <ul style="list-style-type: none"> ● Innovation agenda extends to focus on sustainable industry clusters and process improvements ● People agenda educates and trains people with special knowledge of sustainable practices ● Place agenda strengthens quality of life through smart design, solid waste management, business practices that aid air and water quality ● Productivity agenda adds green permitting; transportation infrastructure to reduce fuel waste and time lost from congestion
<p style="text-align: center;"><u>INITIATIVES</u></p> <ul style="list-style-type: none"> ● Public Finance ● Education/Workforce ● Health Care ● Economic Innovation ● Transportation 	<p style="text-align: center;"><u>INITIATIVES</u></p> <ul style="list-style-type: none"> ● Weave sustainability into current initiatives (listed at left) ● Consider: <ul style="list-style-type: none"> ■ A fresh look at land-use ■ Eco-systems services markets ■ Oregon as a global center for sustainability learning ■ Federal forest health ■ Other issues as they take shape

Sustainability in new initiatives. We add new initiatives to the Oregon Business Plan as current work is completed. Initiatives provide the framework for business leaders, public officials, and other community leaders to work together. This year the Business Plan sought

recommendations for new initiatives that would help achieve our vision for Oregon as a leader in sustainability.

Consequently, at this year's Summit we will hear four new initiative proposals that were shaped through discussions with industry focus groups, community leaders, and a committee of business leaders with an interest in sustainability. Initiative advocates will pitch their proposals and Summit participants will respond through electronic voting. Here are this year's candidates:

- *Make Oregon a Global Center for Learning and Application of Sustainability.* Oregon today is a center of knowledge on sustainable practices, with expertise among leaders in business, nonprofits, government, and education. We have the opportunity to share that knowledge with the world. This proposal will help us attract more talent, enhance our own learning and development, and strengthen our reputation as a global leader. Business leaders, teaming up with the University System, should take the lead.
- *Take a Fresh Look at Land-Use Planning.* Much has changed since the Oregon land use system was adopted over 30 years ago. Our industries have changed. Ecological challenges are different. Much has been learned about the tools that can be used to shape the landscape. The Big Look Task Force authorized by the 2005 Legislature with the encouragement of the Oregon Business Plan was addressing these issues, but its work was not funded by the 2007 Legislature. The Big Look needs to be revived.
- *Expand the Ecosystem Marketplace.* Oregon is taking an early lead in developing infrastructure that allows businesses to purchase ecological services from others as a way of mitigating their own environmental pollution. Oregon has the opportunity to leap ahead in this area. Trading can lead to better environmental outcomes at a lower cost to business. It also creates the opportunity for national and global leadership, with the potential for Oregon to become a center in this field.
- *Address Federal Forest Health.* This initiative brings together environmental, community and forest products interests to find ways to manage federal forests through approaches that dramatically improve forest health and reduce the risk of catastrophic fires, provide material for wood products and generation of electricity, and help stabilize local economies. It is a classic example of policy aimed to achieve the triple bottom line.

What You Can Do To Help

The initiatives described above are just the beginning of a long journey to position Oregon as a green leader. We invite members of the business community and our other partners to come forward with additional proposals. Two areas in need of committed leadership are water policy and energy policy.

However, Business Plan 2.0 is also not just about policy. It's also about actions individual companies can take. As described earlier, Oregon has a concentration of expertise in helping companies embrace sustainability. We encourage you to access Oregon-based expertise and resources such as the Oregon Natural Step, the Southern Oregon Business Sustainability Forum, and the Portland Business Alliance green team forum. Other good resources include www.sustainableoregon.net and, in the Portland Area, the City of Portland's Office of Sustainable Development. These are just a few of many organizations that share best practices and help companies reduce their environmental footprint.