MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

February 14, 1985

The thirtieth meeting of the Senate Taxation Committee was called to order by Vice Chairman Joe Mazurek at 8:08 am, in Room 413-415 of the Capitol Building.

ROLL CALL: Chairman Towe was excused. Senator Brown was excused, but expected to join the committee later. All other members were present.

CONSIDERATION OF SB 330: Senator Pat Goodover, Senate District 20, chief sponsor of the bill was recognized. He said that a repeal of the unitary tax would result in increased job base in Montana and end an unfair double taxation. He said the record of other states proves this. As an example, he cited Oregon where increased evidence of interest from Japanese companies occurred following Oregon's repeal of its unitary tax. He said the bill would allow state taxation on the basis of operations within the 50 states.

He provided the committee with an amendment and a copy of the bill incorporating that amendment (Exhibits 1 and 2).

PROPONENTS

Ms. Janelle Fallan of the Montana Chamber of Commerce submitted her testimony in writing (Exhibit 3).

Mr. Mike Fitzgerald, President of the Montana International Trade Commission, submitted a packet of information to the committee including his own written testimony (Exhibits 4, 5, 6 and 7). Mr. Fitzgerald added that tourism was a category his written material failed to cover. He felt it possible that the passage of the bill could insure a Japanese tourist trade in Montana.

(Senator Brown joined the committee at 8:25 am.)

Mr. Ron Oberlander, President of the Economic Growth Council from Great Falls, said his organization sought to promote and attract investment in Montana in an effort to promote and develop jobs. He said states' competition for job base is fierce. The unitary tax he characterized as a litmus test for an anti-business climate. He said the pacific basin and Canada are the primary targets for Montana trade. Fourteen states originally had this tax, he said; and now only eight retain it. The Canadian government says unitary tax is inconsistent with their investment policies. He read a letter from a computer company who characterized those states with the unitary tax as "rated zero for attracting business". He asked the committee to look at the long range benefits of an increased tax base and to support SB 330.

Mr. Roger Anderson, Chairman of the Board of the Economic Growth Council, small businessman, city commissioner, mayor-elect of Great Falls, said that Montana should have one taxation goal: to insure that Montana's corporate tax won't slow employment growth. He said that no competitive advantage should be given Montana businesses as that is the single greatest barrier to investment in Montana. His reasons for wanting repeal of the unitary tax included: double taxation, an increase in the expense and workload of corporations and the importance to Montana subsidiaries of international companies. He concluded by reading a letter from the Great Falls Chamber of Commerce (Exhibit 8).

Mr. Fred Ferguson from the Council of State Chambers again discussed the economic development related to jobs issue. Points he covered were: parity among taxpayers; Oregon repealing unitary tax in a one-day session with eclectic support; industry's effort to solve this through the court system without success; preemptive legislation looming from Washington, D.C.; of eight states with the tax, six have legislation pending to repeal it, and finally, he gave the committee two publications on the subject (Exhibits 8 and 9).

Mr. Iva Gomberg, representing the Sony Corporation of America, said that the host country has an obligation to see that foreign corporations are fairly taxed. He talked about Sony investments in San Diego, Alabama and Florida; noting, though not directly, that they stayed in each location despite state laws on the subject of unitary taxation. Sony, he said, wants to pay their fair share of taxes. He discussed a side issue of the shifted burden to local governments in the bill is defeated. He said the "chilling impact of unitary tax" would keep out Japanese investment.

At 9:10 Vice Chairman Mazurek said that equal time would have to be left to the opponents of SB 330. He asked further proponents to stand and identify themselves for the record.

Mr. Bill Kirkpatrick of Champion International, rose supporting the bill and submitted written testimony (Exhibit 11).

Mr. Dennis Burr of the Montana Taxpayers Association rose in support of the bill.

Mr. Don Allen, Montana Wood Products Association, supported SB 330.

Mr. George Anderson, a CPA and Chairman of the Montana International Trade Commission, supported the bill.

Mr. Jeff Quick, Missoula Chamber of Commerce, supported SB 330.

Mr. John Jutila, Vice President of Research at Montana State University said that he did not rise in support or opposition, but would be able to explain university dealings with the Japanese.

OPPONENTS

Mr. John LaFaver, Director of the Department of Revenue said SB 330 was gliding into the state under the blue flag of economic development. "I suggest to you, the flag is black and white," he said. He characterized the bill as a "pirate ship". He ntoed that Sony does not even file an income tax return in this state. He said SB 330 would result in a $10 million dollar decrease in Montana revenue and allow tne large multinational corporations to compete unfairly with Montana businesses.

"We do not apply 6 3/4 percent tax to income earned elsewhere," he said. "We tax at 6 3/4 percent the small sliver of the entire pie that is earned here." He noted Montana firms pay on 100 percent of their earnings.

The Governor's Council on Economic Development opposed tampering with this tax. Mr. LaFaver said the proponents had failed to note the other consequences in states where unitary taxation methodology had been repealed. Florida, for example, raised their corporate tax rate. He said Montana's corporate tax rate would have to be raised to 25 percent to make up revenue lost by passage of this bill.

Tax cuts do not result in increased jobs and investments in Montana, Mr. LaFaver continued. He said that studies show that investments from foreign companies actually declined after Montana lost $9 million in tax incentive to lure investment. Buying economic development by cutting taxes, in short, does not work, said Mr. LaFaver.

The Legislature is in a financial straight jacket, he said. He wanted the committee to contrast this hearing with one at which the parents of handicapped children in Montana were asking for help for their children. "Are we going to give a $10 million handout to the largest and richest corporations and put our own handicapped kids at the end of the line?" he asked.

Mr. LaFaver concluded saying, "SB 330 is bad for almost everything and almost everybody. I suggest you sink the ship."

Ms. Carol Daly, Vice Chairman of the Governor's Economic Development Council spoke in opposition representing herself. She agreed with the proponents, that the equity issue was very important. She said the multinationals should be able to compete in Montana on terms with Montana businesses. She wanted the committee to look at the lack of guarantees in SB 330. She noted that the major job growth in the U.S. was not in the Fortune 500 companies. We cannot buy businesses in, she said.

Mr. James Murry, executive director of the Montana State AFL-CIO said that the deficit resulting from SB 330 had not been addressed by the proponents. He said we are looking at losses from possible federal level budget cuts, loss of price support to farmers and he questioned whether we wanted now to give a windfall to corporations (Exhibit 12).

Mr. Chet Kinsey, representing the Montana Farmer's Union, submitted written testimony in opposition (Exhibit 13).

Mr. Kinsey, also presented written testimony (Exhibit 14) in opposition from the Montana Low Income Coalition, calling SB 330 "another relief measure for wealthy corporations."

Mr. Gene Fenderson, Laborers Local 254, discussed the history of four foreign corporation investments in Montana. Corporations come for the natural resources, he noted, not for high tech industry. He said of four in the Helena area, only one was a decent citizen in the state. Others brought in workers from out-of-state; ran out on payrolls; had work stoppage problems. He inquired about the date, wondering if it was February 14 or December 7.

Mr. Phil Campbell, Montana Education Association, said they opposed the decrease of $2.5 million each year from the School Foundation Program.

Mr. Jere W. Glover, National Small Business Association, said that small business policy is against taxes period. But that as taxation is unavoidable, it at least should be done fairly and equitably. He noted that Montana was one of the highest per capita small business states in the country. He said, "The big companies are lying, plain and simple." He said small business has created all the new jobs in this country since 1980. He said large corporations have had a 2.6 million net loss of jobs since 1969. "Don't let them sell you on jobs," he admonished.

As large business abandons its tax base, small business pays, he said. Illinois has had a tax increase of 20 percent for home corporations, he noted.

Unitary tax, he said is a method of accounting and not a tax itself. He said that corporations shift income to avoid taxation whenever possible and repeal of this method would make it possible. If the state is going to spend $10 million he suggested it be spent on home-based businesses.

Ms. Louise Koontz, Montana Low Income Coalition, submitted written testimony opposing the bill (Exhibit 15).

Mr. Tom Ryan of the Montana Senior Citizens Association said that he hoped Mr. LaFaver became as unpopular with those wanting corporate welfare as he had been with other welfare recipients.

Mr. Eugene Corrigan, general counsel of the Multi States Tax Commission, Boulder, Colorado, said that the committee should ask for actual evidence and tax records. He said that when his commission made that request, nothing was forthcoming. He said water's edge taxation cannot be considered without a domestic spread sheet. He said even the federal government is convinced that there isn't a very good job being done with corporate taxation.

"The unitary tax is not a tax, but a method of computation," he said. He agreed that there is too high a tax rate for corporations, but said that is because the base is so badly eroded.

He characterized double taxation as a strictly phoney issue. He said that these companies get tax credit from the federal government for all taxes paid overseas. The situation is a classic example of divide and conquer, he said.

He noted that the U.S. Supreme Court in a 1982 case with Mobile

Oil said that the unitary tax is the lynch pin of proportionality. He said this Legislature was once critical of the Department of Revenue when 70 percent of the corporate income tax was paid by those within the state when 70 percent of the businesses were non-locals. He said we would return to that situation if this bill were passed.

Mr. Terry Cosgrove, formerly a corporation license tax counsel for the Department of Revenue said he was here speaking as an individual. He said the discussion should address two questions: Will repeal result in expansion of the job base? Is application of world wide combination unfair? He said, no. The U.S. Supreme Court and the Montana Supreme Court have upheld this, he said. The reason no relief is available in court is that the court has already decided against them, he said.

Mr. Ken Parris, an economist for the Montana Alliance for Progressive Policy, said that SB 330 asks the state to invest $10 million. He wanted to know where the dotted line is located, who signs to guarantee the loan, and what security is offered.

Just to break even with this loss he said, would require doubling the work force in the oil industry. He said that would represent a $1.6 billion investment, and an additional $68 million of new net Montana taxable income.

He said when the federal government granted $90 billion in tax incentive to 230 large corporations they decreased their investments by 15.5 percent. The general taxation level he said bears an undetectable relationship to investments and plays no role at all in facility siting decisions.

No further opponents were heard.

Vice Chairman Mazurek recognized Mr. Dallas Hurst, assistant treasurer with the Coca-Cola corporation, to speak in favor of SB 330. In rebuttal he said that all records were open to the committee. "1985 will see the end of worldwide comgination," he said. He explained that further, telling the committee that if California does not repeal, the unitary tax will be repealed at the federal level. He felt from previous testimony that inequities were not being applied to foreign corporations that were being applied to US corporations. He challenged the revene loss estimates as pure fiction.

Mr. Hurst said that it was odd for a state with an extraction tax on state resources to keep a unitary tax which was its philosophical antithesis. He wanted the committee to note that small business in Florida supported the repeal and that Montana has no right to tax income derived elsewhere.

Senator Goodover closed by reading a letter from the Board of Directors of Opportunity, Inc., which passed a resolution in opposition to the unitary tax (Exhibit 16).

Vice Chairman Mazurek thanked all and said that Chairman Towe would announce a time for questions from the committee. The meeting was adjourned at 10:12 am.

Chairman

ROLL CALL

SENATE TAXATION COMMITTEE

49th Legislative Session -- 1985

Date February 14, 1985

Location -- Room 413-415

- -

Name	Present	Absent	Excused
Senator Brown			
Senator Eck	✓		
Senator Goodover	✓		
Senator Hager	✓		
Senator Halligan	✓		
Senator Hirsch	✓		
Senator Lybeck	✓		
Senator Mazurek	✓		
Senator McCallum	✓		
Senator Neuman	✓		
Senator Severson	✓		
Senator Towe			✓

DATE February 14, 1985

COMMITTEE ON Taxation

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Oppose
George T. Bennett	W. R. GRACE	SB 330	X	
Carol Daly	Summit Assoc	SB 330		X
JOHN LAFAVER	DOR	330		X
Dave Woodgerd	DOR	330		X
Jerry Foster	DOR	330		X
Jeff Miller	M.D.O.R	330		X
Neil Peterson	Self	330		X
T. Balzer	Self	330		X
TERRY COSGROVE	self	330		X
Gail M. Stoltz	MT Alliance	330		X
Nancy Owens	MT Alliance	330		X
Dave Dietrich	Pacific Power + Light	330	X	
George D Anderson	Self Mont. Int. Trade Comm.	330	X	
ROBER L. ANDERSON	ECONOMIC GROWTH COUNCIL/GT. FALLS	330	X	
Ira A. Gomberg	SONY CORP. OF AMERICA	330	X	
Larry Sullivan	Self	330		X

(Please leave prepared statement with Secretary)

COMMITTEE ON Taxation DATE 2/14/85

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One Support	Check One Oppose
Jandle Fallan	Mont Chamber	330	X	
Michael M Cunningham	NCR Corp	330	X	
Tom Ryan	Mont SRC Helena	330		X
Dennis Bury	Montax	330	✓	
Louise Kunz	Mt. Low Income	330		X
Phil Campbell	MEA			X
[illegible]	MSU	330	X	
[illegible]	Council of State Chambers	330	✓	
[illegible]	Montana Farmers Union	330		X
" "	Low Income Coalition	330		X
Dale [illegible]	The Coca-Cola Company	330	✓	
Scott Quick	Missoula Chamber	330	X	
Don Allen	Mt. [illegible]	330	✓	
Gene [illegible]	Mt. State AFL-CIO	330		✓

(Please leave prepared statement with Secretary)

(This sheet to be used by those testifying on a bill.)

NAME: Carol Ney DATE: 2/14/85

ADDRESS: P.O. Box 218 Bigfork, MT 59911

PHONE: 837-5808 or 752-1192

REPRESENTING WHOM? self

APPEARING ON WHICH PROPOSAL: UNITARY TAX SB 330

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? X

COMMENT: ______

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: ROGER L. ANDERSON DATE: ______

ADDRESS: 926 CENTRAL AVE.

PHONE: 761-5036

REPRESENTING WHOM? Economic Growth Council/Gt Falls
Small Business, Gt Falls Area Chamber Commerce

APPEARING ON WHICH PROPOSAL: UNITARY S.B. 330

DO YOU: SUPPORT? X AMEND? ______ OPPOSE? ______

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: George D Anderson DATE: 2-14-85

ADDRESS: Helena Montana

PHONE: 406-442-3540

REPRESENTING WHOM? Self ~~Montana International Trade Co~~

APPEARING ON WHICH PROPOSAL: SB 330

DO YOU: SUPPORT? X AMEND? ______ OPPOSE? ______

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Jere W. Glover DATE: 2/14/85

ADDRESS: 1725 K St N.W. Washington D.C. 20006

PHONE: 202-775-1135

REPRESENTING WHOM? National Small Business Assoc.

APPEARING ON WHICH PROPOSAL: S.B. 330

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? X

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those **testifying** on a bill.)

NAME: Ronald OBERLANDER DATE: 2/14/85

ADDRESS: Central Ave

PHONE: 761-5037

REPRESENTING WHOM? Economic Growth Council

APPEARING ON WHICH PROPOSAL: Unitary SB 338

DO YOU: SUPPORT? X AMEND? ____ OPPOSE? ____

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those **testifying** on a bill.)

NAME: Eugene F. Corrigan DATE: 2-14-85

ADDRESS: 1790 - 30th ST., BOULDER, CO 80301

PHONE: 303 - 447 - 9695

REPRESENTING WHOM? MULTISTATE TAX COMMISSION

APPEARING ON WHICH PROPOSAL: SB 336

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? ✓

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Richard M Cunningham DATE: 2/14/86

ADDRESS: 5661 Candlelite Turn

PHONE: 922-9949

REPRESENTING WHOM? NCR Corp.

APPEARING ON WHICH PROPOSAL: 330

DO YOU: SUPPORT? X AMEND? ______ OPPOSE? ______

COMMENT: ______

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Fred E. Ferguson DATE: 2/14/85

ADDRESS: 122 C Street, N.W. S-200 Washington DC 20001

PHONE: 202/484-8103

REPRESENTING WHOM? Committee on State Taxation Council of State Chambers of Commerce

APPEARING ON WHICH PROPOSAL: S.B. 330

DO YOU: SUPPORT? ✓ AMEND? ____ OPPOSE? ____

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Dallas D. Hurston DATE: 2-14-85

ADDRESS: P.O. Drawer 1734 Atlanta, Georgia

PHONE: 404 993-4405

REPRESENTING WHOM? The Coca-Cola Company

APPEARING ON WHICH PROPOSAL: SB 330

DO YOU: SUPPORT? ✓ AMEND? ______ OPPOSE? ______

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

(This sheet to be used by those testifying on a bill.)

NAME: Iva Gomberg DATE: 2/14/85

ADDRESS: 9 West 57th St.

PHONE: 212 418-9423

REPRESENTING WHOM? SONY CORP. of America

APPEARING ON WHICH PROPOSAL: SB 330

DO YOU: SUPPORT? ✓ AMEND? ____ OPPOSE? ____

COMMENT:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SB 330

Feb. 11, 1985

Line 18, P.1

The term does not include income derived from sources outside the United States as defined under the Internal Revenue Code except:

(a) 15% of dividends received without regard to Section 78 of the Internal Revenue Code in lieu of any expense attribution to such foreign source dividends.

(b) rents, royalties, capital gains, interest and fees received by a domestic corporation from a foreign corporation for which a deduction was allowed or allowable in computing a foreign income tax.

Drop proposed new language from line 23, p.1, to line 4, p. 2

Janelle Fallan
Montana Chamber of Commerce

EXHIBIT 1 -- SB 330
February 14, 1985

SENATE BILL NO. 330

INTRODUCED BY GOODOVER, HARP, THAYER, H. HAMMOND, BOYLAN, E. SMITH, HARDING, SWIFT, SEVERSON, GAGE, HIMSL, HALLIGAN, HAGER, RAMIREZ, ABRAMS, MILLER, PHILLIPS, CAMPBELL, O'HARA, PATTERSON, THOFT, JONES, B. WILLIAMS, HAYNE, STEPHENS, TVEIT, ELLISON, KOEHNKE, HANSON, SIMON, WALLIN, PETERSON, MARKS, REHBERG, NATHE, BERGENE, ASAY, JACK MOORE, PINSONEAULT, KEATING, MCCALLUM, PECK, STORY, DEVLIN, DANIELS, O'CONNELL, MOHAR

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXCLUDE CERTAIN INCOME DERIVED FROM SOURCES OUTSIDE THE UNITED STATES WHEN ALLOCATING AND APPORTIONING INCOME FOR PURPOSES OF THE CORPORATE LICENSE TAX; AMENDING SECTIONS 15-31-302 AND 15-31-312, MCA; AND PROVIDING AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-31-302, MCA, is amended to read:

"15-31-302. Definitions. (1) "Business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or

EXHIBIT 2 -- SB 330
February 14, 1985

business operations. The term does not include income derived from sources outside the United States AS DEFINED UNDER THE INTERNAL REVENUE CODE EXCEPT:

(A) 15% OF DIVIDENDS RECEIVED WITHOUT REGARD TO SECTION 78 OF THE INTERNAL REVENUE CODE IN LIEU OF ANY EXPENSE ATTRIBUTION TO SUCH FOREIGN SOURCE DIVIDENDS; AND

(B) RENTS, ROYALTIES, CAPITAL GAINS, INTEREST, AND FEES RECEIVED BY A DOMESTIC CORPORATION FROM A FOREIGN CORPORATION FOR WHICH A DEDUCTION WAS ALLOWED OR ALLOWABLE IN COMPUTING A FOREIGN INCOME TAX.

(2) "Nonbusiness income" means all income ~~other-than except:~~ OTHER THAN

~~(a)~~ business income~~;~~.

~~(b)--rents-and-royalties-from-real-or-tangible-personal property,-capital-gains,-interest,-and-fees--received--by--a domestic--corporation-from-sources-outside-the-United-States which-were-taxed-in-a-foreign-jurisdiction;-and~~

~~(c)--85%-of-dividends-received-from-sources-outside-the United-States-to-which--no--capital,--management,--research, development,-or-other-expenses-may-be-attributed.~~

(3) "Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed.

(4) "Compensation" means wages, salaries, commissions, and any other form of remuneration paid to employees for

personal services.

(5) "Sales" means all gross receipts of the taxpayer not allocated under 15-31-304.

(6) "State" means any state of the United States, the District of Columbia, ~~the-Commonwealth-of-Puerto-Rico,--any territory-or--possession--of--the--United--States,--and--any foreign-country~~ or <u>any</u> political subdivision thereof."

Section 2. Section 15-31-312, MCA, is amended to read:

"15-31-312. Apportionment formula -- relief provisions. <u>(1)</u> If the allocation and apportionment provisions of this part do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for or the tax administrator may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

~~(1)~~<u>(a)</u> separate accounting, provided the taxpayer's activities in this state are separate and distinct from its operations conducted outside this state and are not a part of a unitary business operation conducted within and without this state. For purposes of this part, a "unitary business" is one in which the business conducted within the state is dependent upon or contributory to the business conducted outside this state or if the units of the business within and without this state are closely allied and not capable of separate maintenance as independent businesses.

~~(2)~~(b) the exclusions of any one or more of the factors;

~~(3)~~(c) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state; or

~~(4)~~(d) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

(2) The term "business activity" as used in subsection (1) does not include business activity conducted outside the United States that results in income derived from sources outside the United States."

NEW SECTION. Section 3. Applicability date. This act applies to taxable years beginning after December 31, 1985.

-End-

P. O. BOX 1730 • HELENA, MONTANA 59624 • PHONE 442-2405

TESTIMONY IN SUPPORT OF SB 330
SENATE TAXATION COMMITTEE
FEBRUARY 14, 1985
by Janelle Fallan

You will hear much technical testimony today on this issue. It is a complex one, so we are particularly pleased to have several national experts here. I hope you will take advantage of their presence to ask them all the technical questions you can think of.

I will deal instead with why the Montana Chamber of Commerce is concerned about this issue. After all, it is a tax, or rather a method of taxation, that many legislators and business people alike have not even heard of.

For those of you not familiar with it, the unitary tax is a method of taxing a business in Montana on its worldwide earnings. Most simply put, the problems with this are that its Montana tax liability may have no relationship to its ability to earn money in Montana, and this state may also be taxing it on income that has already been taxed in the country in which it was earned.

The unitary tax was a topic of considerable interest in many states earlier in this decade. State governments saw it as a way to increase revenues without a general tax increase. A U.S. Supreme Court ruling in 1983, known as the Container decision, upheld the right of states to tax in this manner. In 1983, the Multistate Tax Commission figures that the system brought in $625 million to the 12 states then using it: Alaska, California, Colorado, Florida, Idaho, Indiana, Massachusetts, Montana, New Hampshire, North Dakota, Oregon and Utah. Illinois and New York repealed theirs in 1983.

Then Florida and Oregon dropped theirs last year, while Massachusetts' has been struck down in a court ruling. As we discuss it here today, other states considering repealing the tax are California, Idaho, Indiana, North Dakota and Utah. They are all doing it because of their concern with economic development and jobs for their citizens.

In 1983, the Montana Economic Development Project, also known as the McKinsey Report, said that Montana faces a primary job gap of

5500 to 11,500 just to meet slow population growth and reduce unemployment to five per cent. That report also stated that Montana's prospects for economic development are below its neighbors and that Montana has "about the highest" corporate income tax of all neighboring states.

According to the Bureau of Business and Economic Research at the University of Montana, Montana has lost 7000 basic industry jobs since 1979. In 1984, the state's per capita income fell to 84 per cent of the US average. In 1985, it is projected to fall to further, to only 82 per cent of the national average. In its Economic Outlook Seminar earlier this winter, The BBER discussed Montana's declining economic base. What Montanans can do to deal with the problem, the BBER recommended, is to support existing basic industries, encourage new basic activities and supply local markets where possible.

A popular saying in Montana in the last few years has been "We want economic growth, but we want it on our own terms." Rather than allowing ourselves to get carried away with that attitude, I'd like to present you with the case of the shopkeeper who wants to open a store -- but on his own terms. Since he doesn't like to come to work early in the day, he opens at 1, missing the lunchtime crowd. He's concerned about energy costs, so he doesn't light his shelves very well. He likes a view, so his shop is on a hillside, away from the flow of traffic. I could go on, but I'm sure you get my point. He's running the shop on his own terms and he probably isn't going to be running it very long, no matter how good his merchandise is.

Whether we want to be or not, Montana is part of the international community. We have trade missions to Japan and invite delegations from other countries to visit us. We, a state, deal with other nations. One of the questions we want to raise today is whether we are in a position to do that seriously, or if we are dealing in window dressing.

I have a substantial file of material on the economic development implications of the unitary tax. It includes letters from Japanese and Hong Kong businesses to the Department of Commerce concerning Montana's unitary tax. I will be more than happy to review any of this material with anyone who is interested.

When we invite someone else into our home, we can expect them to be polite and to observe our basic customs -- but we must also bear in mind that they may have plenty of other invitations, and to places that are easier to get to.

There are several local development organizations to whom this issue is particularly important. They are concerned with providing jobs in their communities and realize how important foreign investment is to that effort.

The New York Times / Jim Thompson

Terry Kuzumaki, general manager of the Bank of Tokyo branch in Portland, said the bank was advising many Japanese investors about Oregon.

Investment in Oregon Spurred by Tax Repeal

12/19/84

By NICHOLAS D. KRISTOF

Special to The New York Times

SALEM, Ore. — Only eight years ago, Oregon's newly elected Secretary of State jokingly proposed that Oregonians line up on the southern border and hurl rocks at incoming cars with California license plates.

"Those were the days when we were so arrogant," Secretary of State Norma Paulus said recently when reminded of her earlier suggestion. "There's nothing like poverty to change your attitude. Now we're like brazen hussies throwing ourselves on anybody with a shekel in his pocket."

But if Oregonians have been embarrassed about selling themselves, they have nonetheless been spectacularly successful in their efforts. In a highly competitive environment, Oregon has managed to lure a host of companies from Japan and elsewhere. This investment, coupled with a home-grown technological boom as several local concerns have sprung up, has already nurtured what is being called a "silicon forest." The state hopes it will be a better performer than the Douglas fir forests that have been the backbone of Oregon's economy, but have faltered with the rest of the timber industry over the last few years.

To woo outside investors, Oregon officials have made the usual sales tours to promote their state. But what was most critical, officials said, was the decision in July, at a special session of the Legislature, to repeal the state's global unitary tax, effective Jan. 1, 1986.

Oregon was one of more than 15 states that sought to raise revenues by adopting such a tax, which is assessed on a fraction of the company's worldwide operations, not just those that are located within the state or the country. Foreign investors have protested the tax, and recently many have said that they would not invest in states that use it.

Indeed, there now appears to be an effort to turn back these taxes. Several states, including California, are considering repealing them, and Ore-

Continued on Page D4

States Repeal Unitary Tax

Some four decades ago, California legislators, looking for a way to raise revenues, put in place a global unitary tax. The new tax used an accounting method to assess companies on a fraction of their international operations — not just those located in the state or country. Other states gradually followed suit.

Last summer, Oregon repealed its global unitary tax, effective Jan. 1, 1986. Florida followed in a special session of its Legislature 10 days ago. And the Massachusetts Supreme Court last week struck down the global method as inconsistent with state law.

In addition, Indiana's legislative leaders and Governor have signed a pact to repeal that state's global unitary tax when the Legislature meets next year. Powerful lobbying for repeal is also expected in California and North Dakota.

Six other states that have a unitary tax are Alaska, Colorado, Idaho, Montana, New Hampshire and Utah. With the exception of Alaska, repeal efforts are expected to eventually get under way in these states. In Alaska, at least so far, there is little opposition to the tax.

Investment in Oregon Grows

Continued From First Business Page

gon's success in recruiting international business is expected to bolster the arguments of those seeking repeal.

Even before Oregon officially rolled back its unitary tax, it succeeded in attracting a major Japanese electronics company, the NEC Corporation, by agreeing to waive the tax. NEC became the state's first significant Japanese investor when it announced last May that it would build a $25 million factory for fiber optics equipment on a 210-acre site near Hillsboro, 15 miles west of Portland.

After the global unitary tax had been repealed, three more Japanese concerns, Epson America, Fujitsu America and Fujitsu Microelectronics, also announced plans to invest in Oregon. In addition, the West German-owned Wacker Siltronic Corporation announced plans to build the largest polysilicon plant in the world in Oregon.

Gov. Victor Atiyeh, who sells Oregon as vigorously as he once sold the carpets in his store when he was a Portland businessman, said in an interview that the state would recoup through stimulation of the economy far more than the $15 million a year it had lost by dropping the global unitary tax. The state said the foreign investment announced in 1984 would total $690 million over the next several years and provide employment for 4,600 people.

Glowing Terms

Foreign investors who are newcomers to Oregon certainly speak in glowing terms of the state. "In the frontier era, people came here by the Oregon Trail," said Masakatu Tomita, project manager in Oregon for Epson America. "I think many people are following the Oregon Trail now, from Japan and other countries. We love Oregon."

Terry Kuzumaki, general manager of the Bank of Tokyo branch in Portland, said his bank is advising many other potential Japanese investors about Oregon. He said that in addition to no longer having the unitary tax, Oregon's advantages included help from the government, a supply of skilled and stable labor, cheap land, a low cost of living and a very hospitable local population.

Less Attractive

Not everyone is so enthusiastic about the state. R. Willard deWeese, founder and chairman of the Synetron Corporation and a prominent Portland businessman, said Oregon's taxes and contributions for workers' compensation and unemployment insurance still make it much less attractive than many other states.

"We've repealed the unitary tax, and it's a flamboyant gesture to Japanese industry," he said. "But that's only the tip of the iceberg be-- Oregon suffers from many, many other problems."

Determined to address some of these problems, the Governor late last month proposed a major tax restructuring that he said would make Oregon even more attractive to business. Most important, he proposed that the state's steep property taxes be reduced by introduction of a 5 percent sales tax. If the voters approve the change in a statewide election next year, corporations are expected to find Oregon still more appealing.

Educational Centers

The Governor also proposed establishing a center for biological and advanced sciences at the University of Oregon in Eugene, a center for electrical and computer engineering at Oregon State University in Corvallis and a center for international trade and business at Portland State University.

Although other high-tech centers, such as Silicon Valley and Boston, were nurtured near the campuses of some of the finest science universities in the world, Oregon was somewhat unusual in that its high-tech boom came in what one scholar called "a comparative educational vacuum."

The influx of Japanese investment has convinced many Oregonians that the state should look westward in planning its future. With such traditional industries as timber and agriculture in tatters, it is chic to speak of the Pacific century and the common interests of the Pacific rim countries — those from the United States to Asia that abut the Pacific Ocean. Already the United States trades more with these nations than with Europe.

This fall Oregon opened its first foreign office in Tokyo. There is talk of opening another in Singapore. Japanese is an increasingly popular subject in colleges, high schools and even elementary schools. The good will that Oregonians feel for the Japanese seems to be reciprocated. Japanese television last month began airing a show called "From Oregon With Love."

A concern of development officials has been that so far the new investment has focused on the Portland area, with little extending to the farming or logging areas that have been suffering the most.

Moreover, some Oregonians said they would want to make sure that new investment does not provoke the congestion, soaring land prices and loss of agricultural land that have occurred in some areas of California.

Major Proponent

"Every time I get into the traffic out here, I wonder if we're doing the right thing," joked Earl Wantland, president and chief executive of Tektronix Inc., by far Oregon's largest high-tech company.

Japanese businessmen said that they are attracted by the relatively bucolic setting that Oregon wanted to preserve when a decade ago it started its half-serious campaign to keep businesses and foreigners, including Californians, at arm's length.

"Oregon is a very good place to live," Kuninori Kawakami, general manager of NEC's operations in the state, said. "The community is small, but people are very friendly and warm."

Japanese firms avoiding states with 'double tax'

by Frederick H. Katayama
Associated Press

TOKYO (AP) — Major Japanese firms, particularly those in high-technology industries, are carrying out their threats to invest only in states where the Japanese can avoid what they call double taxation.

In the past few months, California, where a plan to change the state's unitary tax system met heavy opposition from its domestic-based electronics industry, has dropped off the Japanese list of states preferred for future investment.

Under the unitary system of taxation, the states tax the profits of a multinational firm based on a percentage of its worldwide income, not on just what was earned locally. Japanese and European businessmen have been highly critical of the tax, contending that it amounts to double taxation and discourages investment.

This month, Fujitsu, a top Japanese computer maker, decided to build two plants in the Portland area that will employ 1,000 people by 1987. The Oregon Legislature in July became the first of 12 states with unitary taxes to revise its tax.

And, in June, Sony announced it would build a $20 million video disc factory in Indiana, whose governor and legislative leaders have pledged to follow Oregon's example when the Legislature meets in January.

A delegation of leading Japanese businessmen, led by Sony Corp. Chairman Akio Morita, visited the United States last winter to lobby officials about abolishing the tax. That visit was followed by recent announcements by Sony, Fujitsu and Kyocera Corp., a leader in Japan's ceramics industry, that they would make no investments in states with a unitary tax.

Oregon revised its unitary tax law so that foreign earnings are not included in figuring the income taxes owed on profits from operations within the state.

California, home to the largest number of Japanese firms in the United States, stands to lose the most. A survey by Japan's Federation of Economic Organizations, or Keidanren, showed that if the tax were eliminated, 44 corporations would consider investing $1.4 billion there, creating more than 11,000 jobs.

Last month, for example, Kyocera, Japan's leading maker of integrated circuit ceramic packaging, scrapped a plan to expand in California and said it would build a ceramic materials research and development center and assembly plants in Washington state.

An attempt by California Gov. George Deukmejian to change the state's unitary tax was blocked last Aug. 31 in the final hours of the Legislature's 1983-1984 session. The proposal's legislative sponsors decided they had insufficient votes for passage and declined to bring it to the floor.

However, Deukmejian said he would try again in December when the lawmakers return. The bill pitted domestic-based companies from the state's Silicon Valley against foreign-based, international companies, many of them Japanese electronics manufacturers.

By retaining the levy, "California is shooting itself in the foot," said Peter Wolff, a Bache Securities analyst here. "If they're trying to attract investment, they're going about it the wrong way."

Wolff predicts that the main beneficiaries will be Washington and Oregon, which offer cheap land and utilities, an educated labor force and low living costs.

NEC Corp., a top computer maker, decided in May to build two plants in Oregon, and there is speculation that Epson, a major producer of computer terminal printers, will build a factory near Portland.

About $35 million of Oregon's $145 million in tax revenues stemmed from the unitary tax, and its revision will mean a "significant" reduction, Gov. Victor Atiyeh said recently.

"But that will be made up by the benefits it will bring," he said. Officials expect new investment to create about 10,000 jobs in the next two years.

John C. Anderson, director of Oregon's economic development department, said the state is using the tax repeal to "aggressively court" potential investors, especially high-tech, communication and information-related firms.

The West Coast won't be the only beneficiary, said Masakazu Kubota, a Keidanren economist, noting that 300 Japanese company officials attended a recent Keidanren meeting with a Missouri trade delegation. Total Japanese investment in the United States stood at $8.7 billion in 1982, twice what it was before 1980.

For the Japanese, the unitary tax was an education in U.S. politics. Keidanren's early efforts were aimed at U.S. government officials before it realized that the tax was a state concern and sent delegations of top businessmen to canvass 23 states.

"We were thinking in terms of Tokyo-Washington," said Kubota, adding, "We weren't fully aware of the meaning of 'the United States of America,' that each state was autonomous and treated matters differently."

Most complaints about the tax come from manufacturers, but banks also are unhappy, Kubota said. Three of California's 10 largest banks in 1983 were Japanese-owned.

The Japanese have succeeded, however, in getting the attention of the federal government. A task force headed by Treasury Secretary Donald Regan recently urged President Reagan to seek legislation to end the unitary tax method if the states refused to take action by the end of July 1985.

In addition to California, Indiana and Oregon, states with a unitary tax system are Alaska, Colorado, Florida, Idaho, Massachusetts, Montana, New Hampshire, North Dakota and Utah.

Seattle PI
9/30/84

TESTIMONY

IN SUPPORT OF SENATE BILL 330

(UNITARY TAX)

By:

Mike Fitzgerald
President & Managing Director
Montana International Trade Commission
Suite 612 - Power Building
Helena, Montana 59601

Before the Senate Taxation Committee
Montana State Legislature

February 14, 1985
Helena, Montana

EXHIBIT 4 -- SB 330
February 14, 1985

The Commission which I represent is a private non-profit economic development corporation which we created in 1974 for the purpose of expanding business and employment, improving personal and per capita income and to diversify the state's economy.

To achieve these goals we work to increase manufacturing, processing and expansion of regional, national and international markets for Montana's resources, products, commercial services and technology.

Within Montana we work to solve economic problems in the areas of transportation, energy, financing, manufacturing, marketing and regulations. Our international projects are to expand exports from Montana and to attract off-shore investment to Montana including financing, joint venture and direct investment.

We have about 100 members who represent the entire spectrum of Montana's economy. You will find details about the Trade Commission in the packets I've given you.

Trade is important to Montana's economy...

MANUFACTURING EXPORTS

There are now about 50 manufacturers who export products including food, lumber and wood products, farm and ranch machinery, surgical supplies, paper, chemicals, fishing tackle, recreational equipment, irrigation pumps, veterinary supplies, jewelry, semi-conductors, solar heaters, fire trucks, pickup campers, dental and medical supplies, bee hives, and other products. Manufacturing exports total about $50 mm annually and directly employs about 6000 people according to a 1984 report by Senator Max Baucus.

MINERAL EXPORTS

Include chromium, phosphate, bentonite, animony, copper, aluminium, stone, clay, vermiculite, talc, cement and others. The Bureau of Mines estimates that mineral exports total about $150 mm annually and employs 500 Montanans.

AGRICULTURAL EXPORTS

Include wheat (70% goes to Asian customers, 35% to Japan), flour, barley, feed grains (also a large share goes to Japan), cherries, honey, lard, tallow, hides, sheep, cattle, hogs, Christmas trees, crop seeds and others.

Agricultural exports annually total about $350 mm and provide employment for about 15,000 Montana farm and ranch workers. (Montana has about 22,000 family farms - @ 34,000 total employment.)

Montananas now export products, resources and commodities to Canada, Mexico, Australia, Germany, France, Belgium, Taiwan, S. Korea, Japan, the Phillipines, Saudi Arabia, South and Central America, Britain and elsewhere.

However, Montana is 48th in value added exports nationally and, 49th in manufactured exports.

MONTANA IS A VAST POTENTIAL, MOSTLY UNTAPPED. OUR ECONOMIC ASSETS ARE CONSIDERABLE.

MONTANA'S ECONOMIC ASSETS

- Montana is third in the nation in wheat and barley production.
- Sixth in timber and wood products.
- Sixth in honey.
- Eighth in cattle.
- Sixth in lamb and wool.
- Montana has a significant amount of the nation's reserves of copper, iron ore, chromium, phosphate, platinum, palladium, bentonite, antimony, vermiculite, talc, lime, gypsum, barite, tungsten, lead, gold, silver, gems and other basic and strategic minerals.
- Montana has valuable reserves of oil and natural gas. (Many believe the Overthrust Belt in Montana may have recoverable reserves larger than Saudi Arabia.)
- Montana has @ 8% of the world's recoverable coal reserves. (75 billion tons sub-bituminous and lignite.)
- Montana's electric utility rates are among the lowest in the nation and will remain comparatively so over the next 20 years. (Primarily hydro and coal fired.)
- Montana has a large renewable water supply (over 40 million acre feet outflow annually) which if managed properly is a tremendous economic and recreational asset.
- Montana has vast expanses of mostly undeveloped land. (147,000 sq. miles, the 4th largest state @ the size of the Japan archipelago.)
- Montana has an expanding manufacturing base and a core of technology based industries.
- Montana's primary, secondary, vocational and higher educational system are among the best in the nation. Montana students consistently score among the top 10 on SAT Tests and Montana has the highest exposure of students to computers in the classroom in the nation according to OPI.
- We have competitive advantages in University and Commercial R&D in Agriculture; Livestock; Forestry; Minerals and Mining Technology; Energy; Materials Research and Biogenetics.

- Tourism is projected to be the largest industry worldwide by the year 2000, which has hopeful implications for Montana and this Region. Tourism is now one of Montana's important industries providing jobs and entrepreneural opportunities.

- Montana's State Government is one of four states in the U.S. that has not raised taxes in the past two years and has a budget surplus as of June 30, of $57 million projected to be $25-30 million by June 30, 1985.

- Montana's State Government has excellent bond ratings by the major houses, Moody's rates Montana AA1 and Standard and Poores rates Montana AA.

ECONOMIC PROGRAMS & ORGANIZATIONS AVAILABLE TO ASSIST ECONOMIC DEVELOPMENT & TRADE EXPANSION

In addition to Montana's many capable businesses, we have the following:

- The new "build Montana" programs including: economic development, finance (@ $200 mm direct loan & bonding capacity) labor training, tourism and trade promotion and community development, administered by the State Department of Commerce.

- The University System's R&D Programs.

- The Business Management Assistance Program at Montana State University.

- The Montana Economic Development Board that administers the Business Loan Program.

- The proposed Science & Technology Institute that will determine Montana R&D priorities and attract private investment.

- The Economic Development Advisory Council that advises the Governor and Legislature on development policies, taxes, evnironmental regulations and development programs.

- MERDI & MSE, Inc. in Butte, Montana which is developing new coal burning and other energy technology.

- The Port of Butte's inland container freight forwarding facility which provides price competitive bonded warehousing and shipping facilities for exporters out of the U.S. and for importers to U.S. interior markets.

- The Great Falls Foreign Trade Zone which can provide a customs duty free zone for assembly of products, processing, re-assembly, manufacturing, exhibitions and customs brokering.

- The S.B.A.'s (U.S. Department of Commerce) Helena office has 90% guaranteed export financing for labor and materials, up to $500,000 for each loan.

- The Montana Wheat Research & Marketing Committee, headquartered in Great Falls, which, along with Western & U.S. Wheat Associates, began developing Asian markets for U.S. and Montana wheat 20 years ago and continues to be the farmers life line to new and expanding markets for grain. This organization serves as a model for other Montana industries who wish to develop markets in the Pacific Basin including the wood products and livestock industries.

- The Mike & Maureen Mansfield Center at the University of Montana which houses the Mansfield Library and the Center's Asian Studies Program, is expanding Montana's knowledge of the importance of Asia and the Pacific Basin.

- The Montana Development Corp. (DCCM) which provides Montana for the first time with venture capital capacity.

- The 49th Parallel Institute at MSU which is a non-profit foundation dedicated to improving relations between Montana and Canada, our closest international neighbor and largest trading partner.

- The soon to be developed Mike Mansfield Center For Pacific Affairs which will include a conference center at Flathead Lake has received a $1 million grant from the State and the U.S. Congress approved $5 million for the center. The prupose of the center is to focus attention on the Pacific Basin by sponsoring trade and economic conferences; hosting high level political and economic summits and coordinating education and cultural exchanges between the U.S. and Pacific Basin countries.

Most importantly, we have developed cooperation among government, the Universities and business to begin solving our problems and developing opportunities.

These are some of, certainly not all of the tools to assist expanding trade and investment and improved understanding and friendships between Montana and other countries.

GLOBAL TRENDS THAT MAY BENEFIT MONTANA

- Over the past decade the economy has become planetary, complex, sensitive to economic and political issues. Trade is no longer strickly opportunistic, one shot and short term. In the new world economy the keys are long term relationships that endure, long term mutually beneficial trade and investment agreements, exchanges of political and economic leverage, transnational cooperation among trading and banking houses and strategic positioning for resources worldwide.

- The Pacific Basin will be the largest and fastest growing area in the world over the next 20 years.

- Of the fastest growing economies worldwide over the past 10 years, 5 were in the Pacific Basin including Japan, Taiwan, Singapore, S. Korea, and Hong Kong.

- 50% of the world's population live in the countries that border the Pacific Basin.

- The U.S. Census estimates the work force in the industrialized countries will increase only 10% by the year 2000. Asia the Pacific Basin, will increase by 55%.

- Beginning in the 80's American trade with the Pacific has exceeded our Atlantic trade. Today Asia is our fastest growing market - one-third of all U.S. trade is with Asian countries, 70% of Montana's wheat is sold to Pacific countries annually.

- In order to increase agricultural production and exports as well as markets for our other products, commodities and resources in Montana, we must expand Pacific Basin markets and attract Pacific Basin investors. I believe that the future growth and diversity of Montana's economy is directly tied to the growth of the Pacific Basin. Ambassador Mansfield has often reminded us that..."in the Pacific is where our future lies."

For the past 3 years we have been working primarily with Japanese companies, to interest them in joint ventures and direct investment in Montana.

In October, 1983 we helped the Governor arrange a two day briefing on Montana's economy for 14 Japanese companies. We have continued work with these companies and others sending them venture proposals, products for export and projects for direct investment as well as soliciting them to expand manufacturing facilities to Montana.

WHAT WE MIGHT GAIN IF WE CHANGE THE UNITARY TAX?

Specific possibilities of trade and investment with foreign firms if the unitary tax system is amended to water edge:

1. Wood Products

   Japanese companies believe that Montana's lodge pole pine can be sold in Japan for basic house construction, decorative wood products and furniture. Three Japanese firms are working with Montana wood products companies to investigate this possibility.

   Three Japanese companies are investigating a joint venture with Montana sawmills for products to be exported to Japan.

   The log home market in Japan is substantial. Scandinavian companies sold 8000 log homes in Japan last year. A scandinavian company and a Japanese company are investigating the licensing and manufacturing of log homes in Montana for Japan and the U.S. market.

   Rustic Homes of Lindbergh Lake signed an export agreement with a Japanese company this summer - it does not include Japanese investment.

   A scandinavian company is doing a feasibility study with MITC to investigate the potential of licensing and manufacturing Scandinavian design furniture in Montana for the world market.

II. Mineral Resources & Technology.

   Japanese companies are investigating joint venture participation in Coal beneficiation technology R&D in Montana.

   Two Japanese companies are investigating joint venture participation in rare earth (Yittrium, Zenotime, Terbium, etc.) R&D in Montana.

   Japanese & Saudi companies are investigating joint venture participation in talc and bentonite mines in Montana.

Montana, Canadian & Japanese companies are investigating joint venturing a zinc plant in Montana.

A Japanese company is investigating joint venturing R&D of a portable mineral processing mill in Montana for China.

III. Agriculture

Several Japanese companies are investigating agricultural processing joint ventures in the areas of beef, high protein cereals, pelitized hay and alfalfa, cherries and cherry juice, hybrid cropseeds for China, honey and bee pollen (health food) for world markets. This list expands as foreign firms become more knowledgeable about Montana and this region.

IV. New Products & Technology

Several Japanese companies are investigating joint venturing bio-genetics R&D with MSU for new products for national and international markets.

Japanese companies are investigating several areas of potential joint venture with MERDI including MHD, ceramics and other new materials R&D, rare earth extraction technology and others.

A Japanese company is investigating investment in arid forestry technology, R&D and the Microbial Detoxification (toxic waste disposal) program at U of M.

A Japanese company is presently market testing (in Japan) a welding helmet invented in Montana. If the market test is successful the Japanese company will likely joint venture and license manufacturing and export of the product with the Montana inventor.

Japanese companies are presently investigating the joint venturing, licensing and marketing of a eye glass case invented by a Montanan.

A Japanese company is presently market testing a protective plastic covering for vice grips invented by a Montanan. If the market test is positive the Japanese company will consider joint venturing and marketing the product.

These are some of the specific examples of real potential for foreign investment in Montana.

Why have we concentrated on the Japanese?

- The Japanese are the most agressive and best traders in the global economy.
- Mitsui and Mitsubishi, who are members of MITC, are the two largest trading companies in the world. Mitsui is the largest exporter from the U.S. The annual sales of these companies are over $60 billion each.

- These Japanese trading companies each have over 120 offices throughout the world. They have worldwide information, project organization, marketing financing capacity that we won't develop in Montana in the next 50 years, if ever.

- If a Montana firm joint ventures with one of these companies they will access this capacity.

- I believe that building a long term, multi-dimensional relationship with these companies will allow us to do projects in Montana that otherwise wouldn't be possible.

- Also, Japanese companies are used to long term relationships. They make large investments which may take a long while for profitability. They invest to control world market share with almost total disregard to quarterly earnings. This is important because most projects in Montana, particularly those in our basic industries will require a long term committment and won't have quick profitability.

THE UNITARY TAX ISSUE

Montana currently uses a formula based on a multinational corporation's payroll, property and sales in our State...and applies it against the company's worldwide income...to derive the corporate excise tax owed to Montana. I received the following fiscal impact estimates from Keith Colbo, Director, Department of Commerce who got them from the Revenue Department:

1. Repeal of Department's authority to combine on a worldwide basis estimated cost to the state $4-8 million/year reduction in revenue. This may be termed a "water's-edge combination" approach. "Water's-edge" translates logically to be a combination limited to domestic subsidiaries and excluding foreign source income.

2. Repeal the worldwide combination to a water's-edge approach, but include foreign dividends estimated cost to the state $1 to $2 million per year. This is similar to the action pending in California and is preconditioned on a definition of water edge which includes:

   a. All domestic subsidiaries
   b. Full taxation of foreign dividend income.
   c. Corporations active or incorporated in tax havens.

The unitary method of taxation has come under repeated attacks from business and government leaders in Japan, West Germany and Great Britian who contend it is unfair.

- These corporations say the unitary method can subject their worldwide income to double taxation...that it creates unwarranted confusion...and that it unnecessarily increases their cost of doing business.

- The Kaidanren, the lead business organization in Japan says there are now 170 companies considering building new plants in the U.S.

- They have told us bluntly their corporations will not even consider investing in a state that has a worldwide unitary tax system.

- Some people will tell you this system of taxation does not play a significant role in corporate siting decisions - that is simply not true.

I want to be certain you understand this:

The foreign-based corporations we deal with have no quarrel with paying their fair share of state taxes.

They understand these taxes buy essential services that benefit businesses, their executives and their employees.

As you know Montana is one of only 11 states that have a worldwide unitary tax system, 4 of the 11, Massachusetts, Forida, Indiana and California presently have proposals before their legislatures to repeal or amend their worldwide unitary tax.

- Oregan repealed their tax last July and have since received committments from 4 Japanese companies to build over $300 million in new plants which will create about 2000 new jobs. That's just since July. Included in the packet I gave you are articles about Oregon's success.

- We are faced with a declining economy in Montana as the national and world economies continue restructuring much of the "old" industry must change rapidly with new technology and better processing or it will disappear.

- Montana's economy is undergoing this same restructuring.

- New investment is the key to achieving those goals.

- Foreign investors are seriously looking at projects in Montana right now.

- If and when we modify the present unitary tax system I believe foreign companies will begin projects in Montana.

I recommend that you, at the least, modify the present unitary tax system to the "water's-edge" version.

Thank you.

From THE JAPAN TIMES, Wednesday, July 18, 1984.

Keidanren Finds U.S. Receptive to Japan's Direct Investment

— 3 Groups Tour 23 States; Anti-Unitary Tax Drive Gaining Support —

Keidanren (Federation of Economic Organizations) in June sent three groups totaling 32 representatives of major Japanese corporations fanning out to 23 American states and Washington, D.C.

The second Keidanren investment mission to visit the United States this year had a double objective. It was, first, to explore at first hand the local climate and receptiveness for direct Japanese investment and, second, to drive home the desire of investing Japanese businesses to see, ideally, a non-conditional end to the worldwide unitary taxation retained in some states.

Akio Morita, chairman of Sony Corp. and also of Keidanren's International Investment and Technology Exchange Committee (IITEC), was the general leader of the three-group mission. Group A, headed by Seiki Tozaki, chairman of C. Itoh & Co., canvassed Massachusetts, Oklahoma, Mississippi, Florida, New York, Washington, D.C., Maryland, and Alabama.

Group B, led by Masataka Okuma, senior adviser to Nissan Motor Co., toured Washington, Illinois, Virginia, North and South Carolina, Georgia, Tennessee, Kentucky, Ohio and Michigan. Morita himself

Akio Morita

traveled with Group C to Oregon, Indiana, New Jersey, Pennsylvania, Missouri and California.

In exclusive interviews with The Japan Times following their return from the three-week tour of different regions of the United States, the three group leaders spoke of a most enthusiastic reception given them.

And they are unanimous in the belief that a long list of advantages offered there makes the United States the No. 1 world outlet for private Japanese investment. They count among such avantages political stability, the quality of life at the sprouting centers of high technology across the U.S. continent, accessibility to the market, and, above all, the traditional American respect for private enterprise.

The mission also achieved much, said Masaya Miyoshi, Keidanren senior managing director, in the sustained campaign against unitary taxation, the system used in 12 American states to tax multinational corporations on the basis not of their U.S.-source income alone but of worldwide earnings, property and payroll.

In four of the five unitary-tax states covered by the itinerary of the present mission, their governors promised that they would soon either abolish or modify the controversial tax, Miyoshi reported.

Their latest experience made the Keidanren groups realize anew the need for direct contact with states and local communities in managing Japan-U.S. economic relations.

They plan to make available a mountain of information they have obtained on infrastructure, tax incentives, and other attractions offered by host states to Keidanren member corporations and other Japanese businesses.

The group leaders emphasized nonetheless that investment decisions ultimately are for individual businesses to make for themselves. For doing that, they must go to the states and counties themselves and negotiate, as it were, concrete terms of entry with the appropriate authorities.

In Washington, Morita and Tozaki were received for separate meetings by President Ronald Reagan, Secretary of state George P. Shultz, and Treasury Secretary Donald Regan. The two Japanese industry leaders reported they were heartened too by these high-level meetings in the U.S. capital where the president and his top aides showed understanding toward the unitary tax problems and left no room for doubt about their faith in the ultimate importance of Japan relations to the United States.

Itinerary Followed by Keidanren Groups Across U.S.

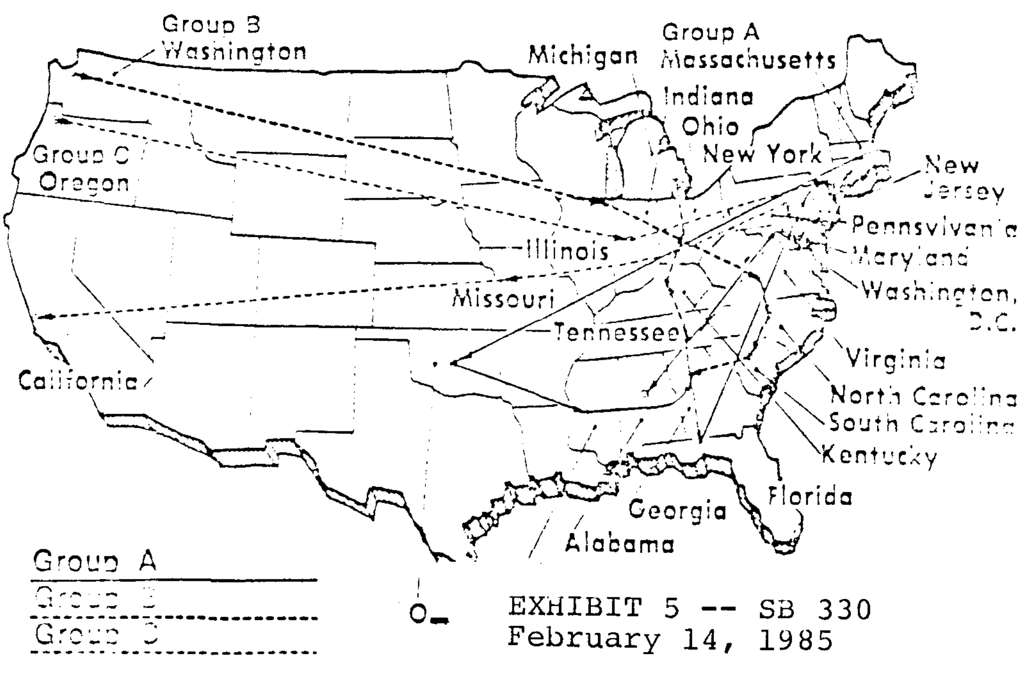


EXHIBIT 5 -- SB 330
February 14, 1985

Warm Welcomes Show Local Determination

Everywhere the Keidanren groups went, they said they were met by an almost overwhelming display of hospitality and eagerness to sell them on the attractions of the area for investment.

They were given volumes of well prepared brochures, some of them having covers printed in Japanese. Escorted all the while by local officials, they were flown by state-provided helicopters and planes to industrial parks, research centers and harbor facilities.

Plenty of time was set aside for the groups to confer with state governors, legislative and business leaders.

Miyoshi said the groups owed in large measure this well-organized reception to the assistance of the American State Offices Association (ASOA), which brings together 20 American states represented permanently in Japan. All of the 10 states covered by Group B, for example, are members states of ASOA, except Tennessee.

Explaining the popularity of the Keidanren Investment mission, Morita mentioned two reasons. First, he feels the American hosts, on both the state and federal levels, welcomed it as a manifestation of serious Japanese interest in moving production plants to the U.S. and contributing to job and

Seiki Tozaki

business creation there. A net effect of this, Morita said, would be to reduce the exports of completed Japanese products and ease the Japan-U.S. trade imbalance.

Second, Morita recalled that back in 1970 when Sony built its first plant in the U.S. there was an amount of misgiving among the Americans over how Japanese manage their operations. Today the Japanese style of management is no longer the mystery to the U.S. public it once was. Improved estimation of Japanese ability to organize production and turn out high quality products is now a factor in the strong American interest in attracting Japanese investment.

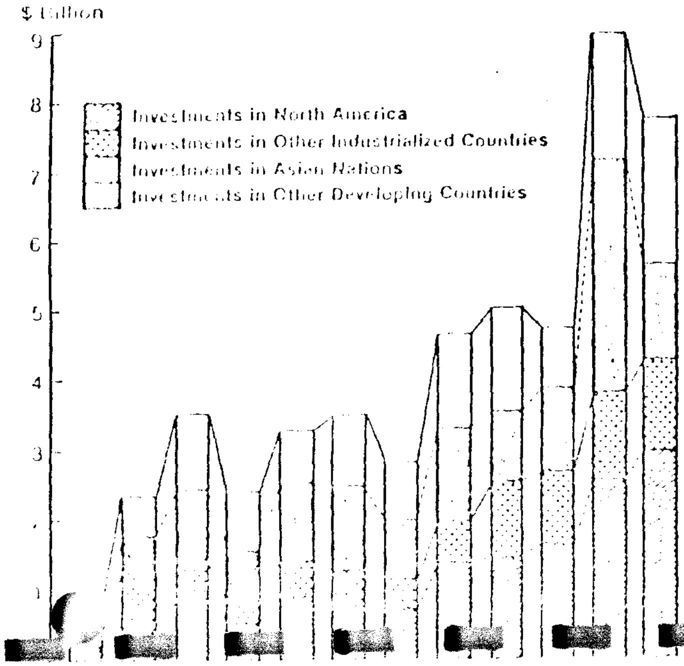
Miyoshi said American states are eager to bring top notch industries to their regions regardless of whether they are American or not. This spreading "hi-tech fever" is fueled, in his view, by both the concept of "new federalism" and the massive budget deficit of the federal government.

Both are driving American states to put their financial houses in order and become more independent from Washington in both fiscal and political terms. To achieving greater independence, states must increase their own tax revenues through regional economic development.

But they see their future in technology- and information-intensive industries rather than in conventional manufacturing and fabricating industries. Many people he met on this tour, Okuma also recounted, talked of the prospect of smoke-stack industries being taken over by Korea and Brazil and other [illegible] latecomers by the end of the [illegible] century.

[illegible]

Rising Japanese Investments Overseas



businesses and offering a good residential environment with which they hope to draw talented researchers and engineers to staff them. The Japanese image is that of a high tech power fast coming up from behind.

What impressed Tozaki was also the emphasis by the hosts on the high "quality of life" they can provide to potential Japanese investors and their Japanese employees.

He said the Americans stressed, wherever his delegation went, they have theaters, libraries and all other cultural facilities in their towns and cities besides tax incentives.

Another possible reason for the enthusiastic welcome received by the Keidanren mission, Okuma said, is that its members represented leading Japanese companies from major manufacturing industries such as Toyota Motor Corp., Toyo Engineering Co., Komatsu Ltd. and NEC Corp.

He noted that these Japanese corporations already have their own plants and factories in the U.S. or plan to invest there for transferring some of their production bases from Japan to the U.S.

Okuma also noted that a number of Japanese firms already operating plants in Tennessee, North Carolina and other southeastern states enjoy a good reputation for contributing to revitalization of the local economies.

Hi Tech Spread

Even repeat travelers to the U.S. among the mission members were dazzled this time. They spoke almost with awe of the rapidly proliferating centers of high technology industries, [illegible]

said.

Both Tozaki and Miyoshi, who went with Tozaki's group, noted that the first U.S. high tech zone sprang into being some 20 years ago around the Massachusetts Institute of Technology and in the suburbs of Boston. High-tech industries have since moved westward to the Silicon Valley of Southern California and then to the southern and southeastern states and are now spreading northward via Florida.

New U.S. technology centers, Tozaki and Miyoshi said, often seem to take the form of government and university-industry complexes. The Japanese visitors were impressed by the huge cluster of private firms forming around the NASA's Space and Rocket Center at Huntsville, Alabama. In terms of scale, the Japanese "technolopolis" project does not even begin to stand comparison, Miyoshi commented.

Speaking in a separate interview, Morita had a word of caution to offer. He felt that the American hosts perhaps showed the Keidanren groups the best of the new industrial sites they have with all their splended environment and the quality-of life trappings.

But these showpiece sites might not be practical to the purpose of Japanese industrial investment. Setting up a research center where land costs as much as $300,000 an acre could make sense but building a large-scale manufacturing plant might not. Morita said it takes a large-scale investment to create thousands of blue collar jobs and make a significant dent in the Japan-U.S. trade imbalance, and a project of this [illegible]

Four States Promise Remedial Action

The sustained anti-unitary tax drive by the Japanese business community is gaining support, and the perception that the tax still in effect in 12 American states is the single most serious barrier to incoming foreign investment is now widespread among U.S. leaders, declared Morita, the mission's general leader.

Okuma, leader of Group B, reported that high officials of the 10 non-unitary tax states visited by his group invariably made a point of their own regions' being free from any tax obstacle of that kind to potential Japanese investors. Treasury Secretary Regan's "market force" now seem to be at work, at least in the reckoning of American state officials and Japanese-based multinationals, in redirecting investments away from the states having the unitary tax toward those not having it.

Morita, Tozaki and Miyoshi see the most tangible result achieved by the latest Keidanren investment study mission in the fact that four of the five unitary tax states visited this time have promised remedial action.

In **Massachusetts**, Governor Edward J. King declared to the Tozaki group that he would first take administrative steps to remove the unitary tax system in effect out of the way of Japanese and other foreign investors. He also promised to take legislative steps eventually toward eliminating it altogether.

In **Florida**, Governor Robert Graham assured the same group that consultations will be initiated within 30 days among interested parties with a view to finding a solution satisfactory to both investors and the state within several months.

Miyoshi said Gov. Graham clearly is committed to either abolishing the unitary tax system or modifying it by introducing the "water's edge" principle which limits the application of the tax to foreign companies' earnings within U.S. borders.

In **Oregon**, Governor Victor Atiyeh surprised his aides by stating offhand in a meeting with the Morita group that he himself is strongly opposed to the tax scheme. The governor is said to have expressed his preference for the water's edge guideline. He asked the Japanese visitors to step up their efforts to persuade other unitary tax states drop the tax system, Miyoshi said.

What happened in **Indiana**, Miyoshi said, was by far most dramatic. Upon having a verbal pledge by Governor Robert D. Orr, a Republican, to exempt foreign-based multinationals from the controversial taxation, Morita asked that the governor confirm it in writing. Eventually, the written pledge was signed by 10 people in all, including the speakers of the State Senate and House and even the Democratic opponent of Governor Orr in the autumn election.

In return, Morita immediately announced Sony's plan to build a $20-million videodisc plant in that state.

In **California**, more than 10 proposals for amending or abolishing the state's unitary tax system have been submitted to the legislature. Miyoshi feels that pressure has visibly increased for both the state government and assembly to take ameliorative action since last February when he was there last as a member of the previous Keidanren mission led by Tozaki.

Future of Tax Controversy

The recommendation announced in May by the treasury secretary's working group no doubt has had an effect in accelerating the review of worldwide unitary taxation. It broadly proposes to the 12 unitary tax states that they abandon the worldwide method of assessment and instead levy tax based on what an international corporation earns within U.S. borders.

Many questions, however, remain unanswered, Morita pointed out. The water's edge concept needs more clarification as does the idea of "taxable presence." He is also uncertain on how much power to investigate should be given to state tax authorities to determine whether there is a taxable presence.

Tozaki maintains that no conditions should be attached to the water's edge approach. Japanese investors want a total repeal of the unitary tax law, he said.

Despite the headway made by the anti-unitary tax campaign, Morita warned against being too optimistic over its final outcome.

In his eye, California is the toughest nut to crack. He pointed out that California Gov. George Deukmejian has said that the unitary system will be a long-term disincentive to foreign investments although in the short term it increases tax revenues.

But the reality is that the California legislature is reluctant to drop the unitary method and lose $200 million in annual tax receipts. The State Senate late last month failed to act on amendments on the unitary tax law to exempt foreign-based multinationals from unitary taxation.

Morita said he hopes California will pass the amendments next year, if not this year.

What makes an early solution difficult is a recent complication over whether to impose state taxes on profits remitted home from overseas subsidiaries of U.S.-based multinational corporations.

And the practical question of how to compensate for the loss of state tax revenues from the unitary method makes those states hesitate to drop the unitary taxation at once.

Morita stressed that there should be a steady follow-through on the latest tour of the 23 American states by the Keidanren groups. He hopes these will be carried on by individual cooperation in what he called grass roots effort to end unitary tax.

Tozaki also said that Japanese companies should act as [illegible] regardless of whether they [illegible] immediately affected [illegible]

Production Must Move Where Market Is

Basically, Tozaki believes that Japan today has no alternatives but to step up investments in the U.S. and other industrialized areas for export substitution.

Despite repeated declarations by trading powers

Masataka Okuma

to uphold free trade, the gray area keeps growing. By the gray area of international trade, Tozaki means voluntary export restraint and other trade curbs of a less overt variety. Whether or not they may infringe on the GATT rules, they continued to multiply until, in the instance of Japan, 40 percent of its total exports to the U.S. have now come under restriction of one form or another.

If the world trade is to grow even at a modest rate of 2 to 3 percent a year, he said, Japanese businesses must invest in their overseas markets and start producing part of their exports there.

In Tozaki's view, economic changes in Japan also make the growth of outward investment inevitable. The high saving rate of about 20 percent, the rigorous squeeze on government spending and the disappearing outlets for massive plant and equipment investments here all combine to raise pressure for overseas investment.

Of all the investment markets in the world, Tozaki thinks, the U.S. holds out the most hospitable conditions for inward foreign investment. A high degree of politico-economic stability makes it almost free of the so-called country risk, while investors are assured of a huge population of affluent consumers. Even the high interest rates, Tozaki said, spur the inflow of financial resources from the rest of the world.

He said a recent Keidanren survey pointed to strong interest in increased external investment among large Japanese businesses. Of the 330 Keidanren member corporations, the poll showed that 175 expressed willingness to either make new investments abroad or to expand existing projects.

The balance of Japan's direct investment in the U.S. stood at $14 billion at the end of March 1983. Tozaki said he and his colleagues in the investment study mission expect that balance to reach the $20 billion soon.

With Morita, investing abroad is a natural choice for a manufacturer selling a large amount of products in overseas markets. Nearly 70 percent of Sony's sales, for example, comes from foreign markets.

"Our policy is to establish a supply source as close as possible to where demand is. Since Japan cannot survive without exports or foreign sales, Japanese producers must consider building plants in the midst of the markets they depend on for sales," he declared.

Morita said the U.S. is the most promising market for Japanese investment as it is most stable politically and ensures the freedom of private enterprise.

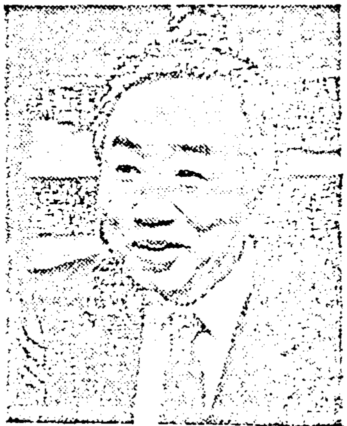
Locally based production in the U.S. and other major foreign markets makes sense in terms of business efficiency as well. It often helps avoid having an equivalent of one month's sales idling on the seas (when the products manufactured in Japan are shipped by sea to the foreign markets), Morita said.

Okuma feels that southern and southeastern states could prove a more favored area for Japanese investment than the northeastern and northern states. The former group has advantages such as a low rate of unionization, a moderate

on the tour of American states.

Okuma nevertheless believes that Japanese businesses must be prudent in expanding their locally based production and other operations in the U.S. When it seems certain the Japan and the U.S. are headed for vigorous competition in the prized industrial sectors of the future, Okuma warned the Japanese not to underestimate possible American fears that the Japanese may be seeking a position of strength in the high-technology areas as they have successfully done to varying degrees in the traditional areas such as textiles, steel and, most recently, automobiles.

To forestall investment friction, Okuma proposed that Japanese investors form joint ventures with domestic American businesses where feasible. Efforts to win acceptance by the host communities and adjust to their manners and values, he feels, are also important to the investing Japanese businesses.



Masaya Miyoshi

The solution favored by Tozaki to forestall investment friction is to make the flow of investment between Japan and the U.S. a truly two-way affair.

"Japan should publicize the good quality of our labor and our willingness to have American investments in Japan. The Japanese policy of restricting foreign investment in sensitive industries is outdated."

"To make our investments truly reciprocal, the government should never try to restrict foreign investment here. We should welcome all kinds of foreign investments here, from high tech to low tech, from ...

vices, as freely as in the U.S.," Tozaki said.

level of wages, the so-called southern hospitality to newcomers, and warm climate. And they are also determined to replace their traditional agriculture-based industries with manufacturing.

Okuma also said he was impressed by the fact that the states he visited are in a comparatively sound fiscal situation, in contrast with the federal government. Their policy of sound finance could serve as a strong incentive for Japanese investors.

The American states count on private industry to enliven the local economies and encourage it with various tax incentives, Okuma said. He explained corporate income tax is pegged at a low level, while sales, consumption and personal income tax are regarded as major sources of tax revenues for state governments.

The Japanese visitors were also impressed by the dramatic transformation of America's industrial infrastructure. Tozaki said that economic geography has been changed by the emergence of the huge Atlanta and Dallas airports as new inland centers of physical distribution.

This development, he thinks, may make it unnecessary for Japanese companies to seek production sites in California. Another example of a major change is the ongoing construction of the 250-mile Tennessee-Tombigbee Waterway linking the Tennessee and the Mississippi rivers. Tozaki predicted that its completion could radically alter the economics of transportation in America's heartland.

Forestalling Investment Friction

Okuma fears expanding Japanese presence on the American industrial scene could trigger a new type of economic friction with the United States.

A recent news report that U.S. business circles [illegible] establishing restrictive rules on foreign investment, [illegible] the local content [illegible] one, was denied as [illegible] groundless by U.S. [illegible] leaders the Okuma group [illegible]

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.

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 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 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.

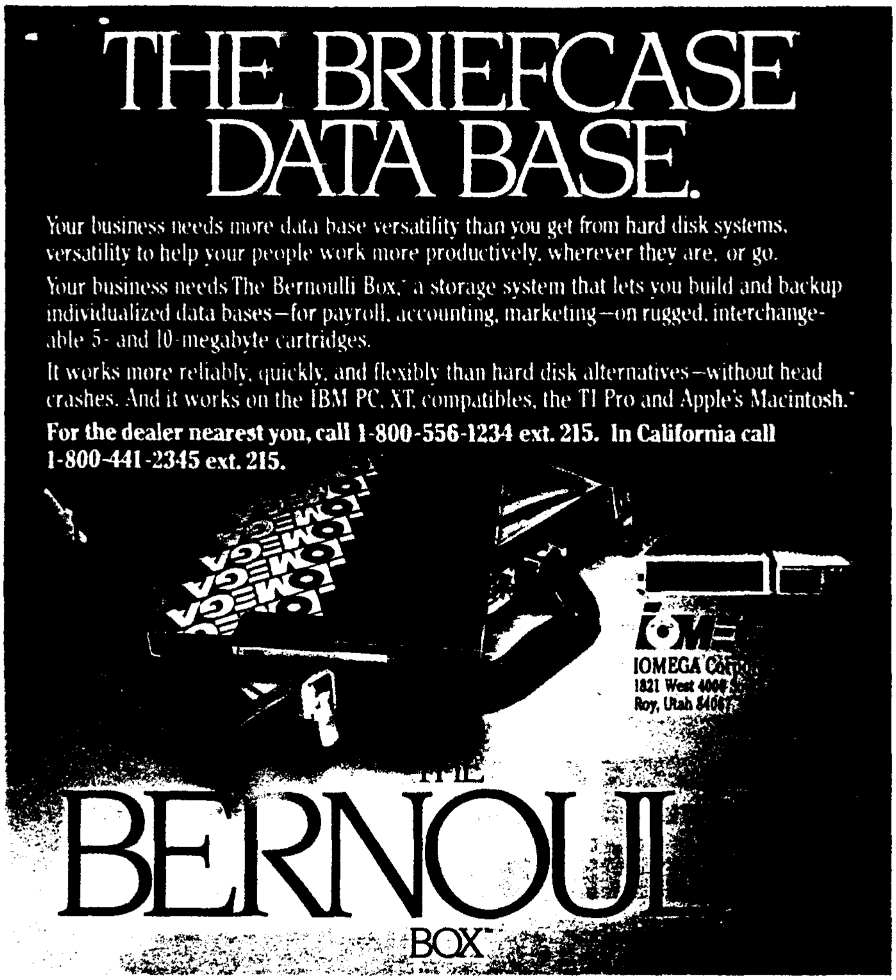
As long as Oregon's southern neighbor retains its unitary tax, Oregon "looks awfully good" to expansion-minded companies, insists John Anderson, director of the state's economic development department. The California legislature passed up a chance to repeal the tax in September, resisting stiff pressure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

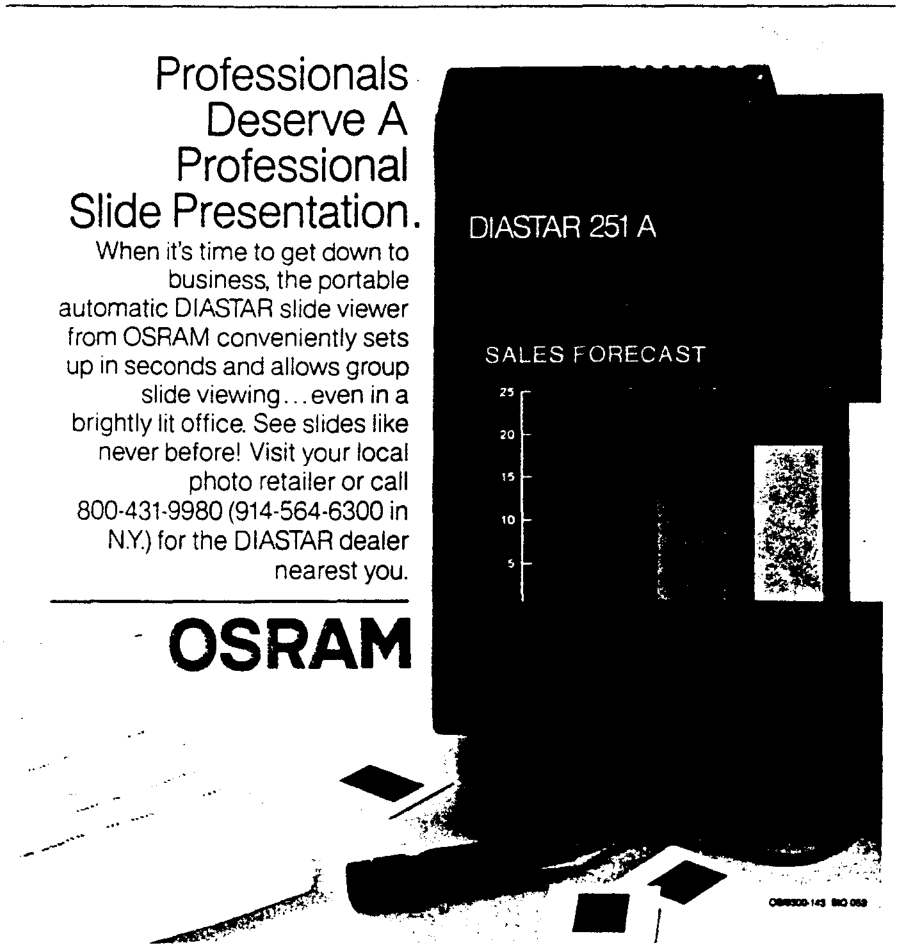
Oregon officials argue that their cause was greatly helped by repealing the tax at a time when the electronics industry was expanding rapidly. "If we had repealed the unitary tax in 1979, I doubt very much we would have received the response we've gotten today," says Governor Victor G. Atiyeh. On the 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

GEOFF MANASSE





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. ■

THE OREGONIAN, SATURDAY, AUGUST 4, 1984

Kyocera expansion plans expected

By HOLLEY GILBERT
Correspondent, The Oregonian

VANCOUVER, Wash. — Kyocera International Inc., a subsidiary of Kyocera Corp. of Japan, a high-technology products manufacturer, is expected Monday to announce plans to build a plant on a 54-acre Vancouver site.

James F. Fowler, who issued the news release announcing Monday's 10 a.m. press conference, said Friday that he has been retained by Kyocera. Fowler owns James F. Fowler & Associates, a Vancouver public relations company.

"Principal officers of a major corporation," Gov. John Spellman and Vancouver Mayor Bryce Seidl will hold the news conference in Vancouver City Hall to announce the location of a "major industry" complex in Vancouver, the news release said.

William L. Everitt, vice president of Kyocera International, based in San Diego, Friday would not confirm or deny that his company was the topic of Monday's news conference. He also refused to comment on whether Kyocera has employed Fowler.

The apparent site of the plant is a 54-acre site owned by the Vancouver School District south of Fourth Plain Boulevard between Stapleton Road and Northeast 63rd Avenue.

The Columbia River Economic Development Council, on whose executive board Fowler sits, has been instrumental in negotiating Kyocera's move to Vancouver. Apparently no brokers are involved in the deal, although Coldwell Banker Commercial Real Estate Services in Portland had shown Kyocera a number of Seattle sites.

Kyocera officials had been looking at possible sites in Washington primarily because the state has no unitary tax and relatively low power costs. Vancouver apparently has been selected for the plant because labor costs in Clark County are lower than other areas of the state.

Everitt said in July it has not been decided which of the companies' diversified products will be produced at the plant. Kyocera Corp. of Japan, the world's largest producer of semiconductor housings, also makes audio and stereo equipment, solar panels and cells, artificial gems and personal and office computers. Yashica camera company is also a division of Kyocera Corp.

Kyocera International owns KHL, the audio products manufacturer, and makes a small computer marketed as the Radio Shack 100.

How many workers the plant may employ is "pure speculation" at this point, Everitt said.

The Asian Wall Street Journal Weekly September 17, 1984

Fujitsu Will Build Two Oregon Plants For $170 Million

PORTLAND, Ore.—Oregon won a commitment from Fujitsu Ltd. to build two plants in the Portland area for $170 million, a month after the state abandoned its unitary tax on multinational corporate profits.

Two U.S. units of the big Japanese electronics and computer concern said the manufacturing facilities, one for disk drives and one for semiconductors, will employ about 500 people each.

News of the Japanese investment was timed to coincide with the current tour of Japan by Gov. Victor Atiyeh of Oregon, who has ardently courted foreign technology investments. The state's economy has been ravaged by the slump in the lumber industry.

Last month, Oregon's legislature passed a law dropping the controversial unitary tax on multinationals, which was based not only on the value of products produced in the state by a company but also on a percentage of its world-wide sales. Multinational corporations have decried such levies as double taxation.

In selecting Oregon, the Fujitsu units cited the state's newly favorable tax climate, the availability of "a highly skilled labor force supported by an excellent educational system," and the pleasant Northwest life style.

One of the units, Fujitsu America Inc., a San Jose, Calif.-based peripherals concern, didn't disclose the exact site of its planned magnetic disk-drive plant. Production, targeted to begin in 1985, is aimed at supplying Fujitsu's burgeoning U.S. market for the data-storage devices.

The second unit, Fujitsu Microelectronics Inc., Santa Clara, Calif., plans to complete its semiconductor facility by 1987 for $130 million, according to announcements from Tokyo.

Jack Foster, senior vice president, marketing, for Fujitsu Microelectronics, said the plant will produce "the full spectrum of products we supply to the American market," notably 64K dynamic RAM memory chips, which store more than 64,000 pieces of data.

In May, Japan's NEC Corp. said it will build a $25 million fiber-optics communications-equipment factory on a 210-acre site in suburban Portland. Other Japanese companies are expected to start operations in the state.

Oregon officials anticipate an announcement shortly from Epson Corp., a unit of Suwa Seiko-Sha Co., which recently told the Japanese press that it plans to build a large printer factory near Portland.

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TUESDAY, AUGUST 28, 1984

THE WALL STREET JOURNAL.

Oregon Turns Into a Mecca For High Tech

By MIKE THARP
Staff Reporter of THE WALL STREET JOURNAL

PORTLAND, Ore. — In the 1970s the bumper stickers read: "Don't Californicate Oregon" and "A Nice Place to Visit, but You Wouldn't Want to Live Here."

Now there's a poster that says: "Silicon Forest."

After years of actively discouraging immigration and investment, Oregon is courting business. The change in Oregon's approach to industrial development reflects its changing fortunes in the 1980s. Like those in many other regions, Oregon's basic industries are foundering, victims of depressed markets, competition, overcapacity and a failure to modernize.

Timber and agriculture, the state's traditional mainstays, have lost their vigor through the decade. As a result, Oregon's population has dwindled—by 25,000 in 1981-82 and 40,000 in 1982-83, according to a survey by Portland State University. Many of these people had been laid off some of the highest-paying blue-collar jobs in sawmills, wood products plants and among the 150-foot firs.

Largest Corporate Employer

There has been some high-tech industry in the state since 1946, when Portland-based Tektronix Inc. was founded. Over the years, the maker of measurement and control instruments became the state's largest corporate employer; it currently has 20,634 employees. A dozen or so spinoff companies were formed, most notably Floating Point Systems Inc., in 1970. Floating Point's chairman, C.N. Winningstad, has become one of the state's most vocal high-tech advocates. "The only sound way to diversify the economy is to bring in large outside firms," says Mr. Winningstad. "The whole world is going high-tech."

Until recently, many Oregonians didn't seem to care where the rest of the world was going. They were more concerned with progressive movements like environmentalism than with economic development. U.S. Ambassador to Japan Mike Mansfield, an ardent backer of two-way trade and investment flows between the West Coast and Asia, once described Oregon's attitude as "self-satisfied."

In the early 1970s, Oregon lost two large potential employers when Data General Corp. and Digital Equipment Corp. decided to build plants elsewhere after receiving little encouragement from the state. At the time, timber and agriculture were still relatively strong.

But toward the end of the decade, the jobless rate was climbing to more than 10%. So Hewlett-Packard Co., which arrived in 1976, and Intel Corp., which came in 1977, were much more warmly welcomed. Hewlett-Packard now employs 2,500 people, and Intel has a work force of nearly 3,000. "These companies attracted other companies," says Pat McCormick, a Salem-based lobbyist for the American Electronics Association, "and our work pool and talent put us on the map."

Crowded Map

Now, the map is crowded. According to the state's economic development department, the number of companies engaged in high technology rose nearly 60% to 910 in 1982 from 568 10 years before.

Since 1982, the first year for which figures are available, a total of $424 million in high-tech investment has been announced by electronic-equipment, instrument and advanced-machinery makers, or 40% of all investment in manufacturing. High-tech employment increased to 22% of all manufacturing workers last year, up from 13% in 1972. The work force reached one million in July for the first time since 1979.

And even the Sierra Club's local chapter now finds the high-tech push "positive" in encouraging low-pollution industry, says a spokesman.

Most Significant Arrival

The most significant new arrival is NEC, a big Japanese electronics company that in May announced it would build a $25 million fiber optics communications-equipment factory near Portland. NEC will be the first Japanese high-tech investment in the state. This move came after Gov. Vic Atiyeh, an ardent recruiter of home-grown and foreign investment, led legislative efforts to repeal the state's unitary tax. The tax is a levy on multinational corporations that is designed to stop them from sheltering income from taxes. Japanese companies have refused to invest in any of the 12 states that use it. In August, Oregon became the first of the 12 to drop the tax.

Not everyone sees high tech as the solution to the state's economic problems. Labor groups argue that the assembly-line jobs—which they call "minimum wage plus $1 an hour"—are replacing higher-paying jobs in the woods or on construction sites. Retraining is also a problem. "The guy coming out of a plywood mill doesn't have an easy walk sideways" to a high-tech assembly line, says a Tektronix executive.

Nonetheless, it seems likely that Oregon will continue to welcome the jobs high-tech companies bring. Says John C. Anderson, the state's director of economic development: "We're going to have to share Oregon with the rest of the world."

THE OREGONIAN, SATURDAY, AUGUST 4, 1984

Japanese hail repeal of unitary tax

Repeal of the state's unitary tax by last week's special legislative session has prompted very positive reactions in Japanese economic circles, according to messages received by Portland Mayor Frank Ivancie.

News of the repeal was front-page news in the influential Japan Economic Journal and received coverage in The Japan Economic and Industrial Journal.

Ivancie, who worked throughout the state for the repeal, said he received a number of messages from leading Japanese banks, investment houses and industries offering their congratulations.

"Oregon will be viewed as a more attractive site for Japanese investment," said a message from the Bank of Japan in Tokyo.

The Bank of Tokyo agreed, saying, "We are confident that this will more greatly strengthen Oregon's attraction for Japanese investment. We will contact our clients currently considering Oregon as an alternative investment area and inform them of this new, positive development."

Both the Mitsui Bank and Toyko's Fuji Bank also hailed the repeal.

"Please be assured that we will do our best to introduce the very attractive Oregon to our investing clients. We believe there will be more opportunities for your development commission and our bank to cooperate," the Fuji Bank said in a message.

The office of the Japanese consul general in Portland reported it also had received positive reactions from Japanese businesses on the repeal and indicated that news of the action was being spread rapidly in business circles there.

On the 11th floor of the Portland Building, the Portland Development Commission has been busy notifying economic development prospects in Europe and elsewhere of the repeal. The PDC staff also has been contacting trade centers around the world about the action.

NEC Corp., parent of NEC America Inc., which planned to locate a plant west of Portland, said it would cancel the project if the unitary tax was not scrapped. NEC Corp. expressed its "sincere appreciation" to "Mayor Ivancie and his able staff as well as Governor Atiyeh for the revocation of the taxation."

Malcolm Russ, executive vice president of the German Wacker Siltronic Corp., characterized the repeal as "tremendous news."

NEWS RELEASE

July 31, 1984
Contact: International Economic
Affairs Dept., KEIDANREN
Phone: (03) 279-1411
Ext. 414

Japanese Businesses Welcome New Legislation by the State of Oregon to Repeal the Worldwide Unitary Tax System

The Japan Federation of Economic Organizations (KEIDANREN) announced that it welcomes the new legislation by the State of Oregon to repeal the worldwide unitary tax system. Under the leadership of Governor Victor Atiyeh, Oregon's legislative body passed a bill to do away with this particular tax system on July 30, local time.

Mr. Akio Morita, Chairman of KEIDANREN's Committee on International Investment and Technology Exchange and Chairman and C.E.O. of the Sony Corporation, praised the significant efforts by members of the Oregon legislature, especially Governor Atiyeh, to modify the state's method of taxation on corporate earnings. KEIDANREN, an organization representing 832 large-scale Japanese businesses and 117 business associations, dispatched a delegation headed by Mr. Morita in June to 23 U.S. states, including Oregon, and Washington D.C. The main objective was to survey the investment climate in order to promote Japanese direct investment in the U.S. as well as to request that the worldwide unitary tax system be repealed. Upon meeting with members of the delegation on June 4, Governor Atiyeh made clear his intention to repeal the worldwide unitary tax system in his state. He then convened a special session of the legislature on July 30 for this purpose.

Mr. Morita stated that KEIDANREN was extremely pleased to learn that Oregon recognized the unfairness of the worldwide unitary tax system, and subsequently moved to eliminate this major obstacle to foreign investment in the state. This shift in policy clearly guarantees fair treatment to present and future investors in Oregon, making the state highly attractive for foreign investment. As a result, this new legislation would in turn lead to the creation of job opportunities and other economic benefits for the state as well.

At the present, more than 10 states in the U.S. are adopting and implementing the worldwide unitary taxation system for corporate earnings causing a situation where the entire income of a corporate group - all subsidiaries and parent firm inclusive - is subject to taxation within a state. In other words, the calculation of corporate tax is not limited to a subsidiary's own income. It also combines the income of the subsidiary's parent organization, regardless of location. Such a system not only reflects extraterritorial application of the law by a state, but also results in the phenomenon of double taxation. Further aggravating the situation of the corporate bodies concerned, companies are forced to spend enormous amount of time and money translating documents, converting currency statistics, and revising financial statements to meet the complicated requirements related to the disclosure of information. With due consideration given to this situation, KEIDANREN has continuously informed the U.S. that Japanese companies are becoming more and more reluctant to invest in states which have adopted the worldwide unitary tax system.

Under the new legislation by the State of Oregon, the filing method for federal income tax replaces the worldwide unitary taxation system in determining the amount of income subject to corporate tax within the state. When this method is applied, the income earned by foreign parent having subsidiaries in the U.S. is not considered as taxable income in the state. Consequently, the unfairness of the unitary taxation is eliminated, opening up a new prospect for both Japan and the U.S.

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PROSPECTUS

Purpose, History, Projects, Services

And

Membership

EXHIBIT 6 -- SB 330
February 14, 1985

SUMMARY OF PROJECTS

1974 TO 1984

- Initiated the first U.S. Steam Coal export project, 1973.
- Sponsored the first statewide business, industry and agricultural international trade show, 1976.
- Designed and sited agricultural research stations in Saudi Arabia, 1977.
- Investigated the economic and political feasibility of coal gasification for the Governor of Montana, 1976 and 1977.
- Initiated the first proposed grain for oil trade with an OPEC country, 1978.
- Assisted the Governor and the Wheat Research & Marketing Committee with the sale of wheat to Taiwan, 1977, 1978, 1980 and 1983.
- Arranged for the importation of diesel fuel to solve a critical statewide shortage in 1979.
- Served on the Advisory Committee of the Northern Rockies Action Group (NRAG), Instate Investment Study, 1982.
- Initiated the statewide project to reorganize the western lines of the Milwaukee railroad into an employee-shippers owned system, 1979 to 1980.
- Initiated the Western Governor's Policy Office (WESTPO), "Pacific Rim Steam Coal Export Study" with Japan, Taiwan and S. Korea, 1979 to 1981.
- Initiated and helped organize the WESTPO Coal Trade Mission to Taiwan and Japan, 1979.
- Participated in the Western Steam Coal Export Seminar to the Kaidanren, Tokyo, 1979
- Co-sponsored the "All Montana Catalog," with the Montana Small Business Association, 1980.
- Published, "Some Perspectives On Environmental Regulation In Montana," By Western Analysis, Inc., 1981.
- Led the successful lobby effort to repeal the state ban on coal exports, 1981.

- Initiated the Montana Economic Development Project (MEDP), co-sponsored with Governor Schwinden, 1981-82 (Provided the basis for Montana's new economic development, trade and tourism promotion, labor training, community development and business finance programs.)

- Led the business lobby effort for the "Build Montana" Economic Development Program & related legislation in 1983 state legislative session.

- Co-sponsored the 49th Parallel Institute's first publication about Canada, "Sharing the 49th Parallel," 1983.

- Co-sponsored with the Montana Environmental Quality Council, "Report to the 48th Montana Legislature On the Socio-Economic Impacts of Large Scale Hard Rock Mining," 1983.

- Co-sponsored, with the Environmental Quality Council, the "Public Forum On Montana's Environmental Regulations and the Economy," 1982.

- Initiated and helped organize Governor Schwinden's Trade Mission to Taiwan and Japan, 1983.

- Helped initiate, organize and co-sponsor the Montana/ Kumamoto Sister State Agreement, 1980 to present.

- Co-sponsored with Governor Schwinden, Governor and Mrs. Hosokawa's visit to forward Montana's Sister State relations with Kumamoto, Japan, 1983.

- Co-sponsored the Western Coal Export Conference, 1983.

- Co-sponsored Senator Max Baucus' Montana Export Conference, 1983.

- Initiated, organized and co-sponsored Governor Schwinden's Trade and Investment Briefing for Japanese companies, 1983.

- Co-sponsored with Governor Schwinden, the Department of Agriculture and the Wheat Research & Marketing Committee the Taiwan Board of Foreign Trade's wheat purchase mission to Montana, 1983. (Purchased $10.6 million of wheat.)

- Served on Governor Schwinden's Development Finance Committee, 1982 & 1983. (Drafted legislation for all of Montana's new finance development programs.)

- Served on Governor Schwinden's Committee To Create An Advisory Committee On Science & Technology, 1982 & 1983. (Drafted the legislation for the new program.)

- Helped initiate and successfully lobbied for the State of Montana's $1 million matching grant for the Mansfield Center for Pacific Affairs.

- Initiated the project for a new coal development strategy for Montana, 1983 & 1984.

- Initiated and helped organize the "Montana Ambassadors," a program for the state's business leaders to directly assist the State Commerce Department to promote tourism, conventions, and attract new businesses to Montana, 1984.

MITC PROJECTS

1974 to 1984

- Governor's Foreign Trade Potential Committee, 1973 to 1974.
- Initiated the first U.S. Steam Coal Export Proposal, 1973.
- Sited agricultural research stations for the Kingdom of Saudi Arabia 1975 to 1977.
- Inventory and Analysis of Montana's Agricultural Credentials, 1975.
- Transportation Analysis of Montana products to Saudi Arabia, 1976.
- Feasibility Analysis of overseas sales of livestock, live and chilled beef, 1975.
- Assessment of Western Coal Development with Montana as a representative case, 1976.
- Whitepaper on Montana resource development, 1975.
- Proposal for an Accelerated Marketing Component, 1977.
- Assessment of commercial air operations in southwestern Montana, 1975.
- Investigation of Montana Barite Development, 1975.
- Feasibility Analysis for a Montana sugar beet processing facility, 1975.
- Sponsored Montana Trade Show Case (International Trade Show), 1976 and 1978.
- Inventory and Analysis of projected socioeconomic impacts of siting a major energy conversion facility at three locations in northeastern Montana, 1976.
- Feasibility Analysis for a Montana beef processing facility, 1976.
- Assisted the Governor and the Montana Wheat Research and Marketing Committee with sales of wheat to Taiwan, 1976, 1978, 1980 & 1983.

- Algerian protein production facility design and siting, 1977 to 1979.

- Proposal for a Montana wheat/Algerian oil barter, 1978.

- Montana Task Force on Coal Gasification, 1976 to 1978.

- Montana natural gas cost and demand analysis, 1976.

- Process selection study for production of pipeline quality gas, 1976.

- Technical evaluation of a Lurgi coal gasificatin system, 1976.

- Montana coal gasification feasibility study, 1976.

- Evaluation of financing alternatives for Montana coal gasification, 1977.

- Legal considerations for development of a Montana gasification facility, 1977.

- Technical management design for a high BTU coal gasification project, 1977.

- Co-sponsored the Schumacher/Forbes Economic Forum on the Future of Montana's Economy, 1977.

- Evaluation and implementation of redevelopment alternatives for Glasgow Air Force Base, 1977 to 1978, which included economic feasibility analysis of:

    - Irrigation Equipment Manufacturing
    - Solar Energy Equipment Manufacturing
    - Wind Energy Equipment Manufacturing
    - Residential Solid Fuel Furnaces
    - Indoor Cattle and Hog Feeding
    - Railcar Rehabilitation
    - Railcar Manufacturing
    - Wind Energy Demonstration Program
    - Grain Storage and Shipping
    - Insulation Production and Marketing

- Proposal for a Western United States Steam Coal Export Agreement with Japan submitted to the United States Senate Finance Subcommittee on Trade and the United States House of Representatives Ways and Means Subcommittee on United States/Japan Trade, 1979.

- "Investigation of the Pacific Basin Market for Western United States Steam Coal, 1985-2000," 1978 to 1980.
- Initiated and helped develop the WESTPO Study on Steam Coal Exports to the Pacific Basin, 1979 to 1981.
- Initiated Montana efforts to reorganize the Milwaukee Railroad into an employee-shipper owned western transcontinental railroad, 1978 to 1981.
- Investigation of the feasibility of railcar manufacturing in Montana, 1979 to 1980.
- Initiated and co-sponsored the Montana Economic Development Project, 1982.
- Marketing and Export Assistance Activities, 1978 to the present.
    - Advised the Western Governors Energy Policy Office International Trade Committee, 1979 to 1981.
    - Delegate to the White House Conference on Trade and Exports, 1979.
    - Co-sponsored the Montana Beef Marketing Seminar, 1979 to 1980.
    - Co-sponsored "The Western Conference on Export and Investment for Food and Fiber" with the Overseas Private Investment Corporation, 1979.
    - Assisted the Dean Rusk Center for International Law with their investigation of the feasibility of and design for a State Trade Development Authority, 1979.
    - Assisted the Montana Small Business Association with their "All Montana Catalog", 1979.
    - Assisted Senator Baucus in setting up a Montana Advisory Group on International Trade and Foreign Relations, 1979.
    - Organized and chaired the International Trade Seminar for the WESTPO Vail Symposium, 1979.
    - Delegate to the United States/Canada Trade and Tourism Conference, 1980.

- Delegate to the Republic of China Trade Conference, Taiwan, 1979, 1980 & 1983.

- Delegate to the WESTPO Coal Export Trade Mission to Japan and Taiwan, 1979.

- Presented Steam Coal Export Seminar to the Kaidanren, Tokyo, 1979.

- Assisted in the formation of a Montana/Canada Trade Relations Task Force, 1979 to the present.

- Assisted in the initiation and co-sponsorship of the Montana/Kumamoto Sister State Project, 1980 to present.

- Co-sponsored the Western U.S. Coal Export Conference, 1983.

- Participated in the Western Governor's Conference "Roundtable On International Trade", 1983 (Nine Governors and twenty western U.S. business representatives outlined a western state's trade program.)

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10TH ANNIVERSARY MEETING

MONTANA INTERNATIONAL TRADE COMMISSION

"MONTANA'S FUTURE IN THE GLOBAL ECONOMY"

By:

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Thursday, November 8, 1984
Helena, Montana

EXHIBIT 7 -- SB 330
February 14, 1985

"As our case is new, so must we think and act anew. We must disenthrall ourselves."

Abraham Lincoln.

The MITC was created in October 1974 by a handfull of people in Montana in business and government who wanted to try some new approaches to economic development, to create an organization that would operate outside of the mainstream, try new experiments, be willing to take risks, both economic and political and propose new initiatives.

- Over the past decade we have worked to expand our energy and mineral resource, timber and agricultural based economy, to increase manufacturing and processing, to expand domestic and international markets and to increase tourism, particularly international tourism.

- Since our beginning in October 1974, we have initiated dozens of projects. Some successful, some not, many partly successful. From all of these projects we have learned what will and will not work in Montana.

- All our projects, time and financial resources have been used to try and improve Montana's economy - to expand business and employment, improve personal and per capita income and to diversify the state's economic base.

- We have concentrated our domestic activities in Montana to help solve economic problems in transportation, energy, financing, marketing and government regulations which tend, in too many cases to confound development.

- Our international activities are to increase export markets for Montana products, commodities, resources and commercial services and to attract foreign investment to Montana and generally to raise Montana's visibility in the nation and the world.

- Since 1974, we have built a global network of business contacts including trading companies, banks, government officials, consultants and entrepreneurs.

- From the start we have continually worked on a theme of cooperation of the idea of a partnership between the public and private sectors to create a new economic development strategy for Montana. We have worked to build a new "spirit of cooperation" and consensus on the major economic issues in Montana.

Our Premise:

-Most Montanans want the economy to grow.
-Most Montanans care deeply about environmental issues.
-Old style industrial development won't work here.
-We can do it different and better.

Economic development requires open and candid discussion and informed debate of development issues and a consensus to move forward.

To develop a public/private partnership for improving Montana's economy we initiated the Montana Economic Development Project which was co-chaired by Governor Schwinden and Ian Davidson, Chairman of D.A. Davidson & Co. The project brought together many of the smartest, most dedicated Montanans in state government, business and the universities. The purpose of this project was to objectively analyze Montana's economic assets and liabilities and develop a new strategy that minimized the liabilities and maximized our assets.

The project became one of the most controversial ever in Montana. But, when the debates and publicity ended and final recommendations were approved Montana had in place for the first time in this state's history the basis for a new economic development strategy with the support and leadership of state government, business and the universities committed to its legislative passage and implementation.

- The recommendations from the MEDP provided the basis for the Build Montana Program which is non-partisan, created and supported by democrats and republicans, business, government, universities and hundreds of Montana citizens who directly served on advisory committees and helped lobby the Build Montana Program through the 1983 legislature.

"The history of mankind is strewn with habits, creeds and dogmas that were essential to one age and disastrous to another."

James Reston
New York Times

What we learned:

Summary of MEDP - Montana's Past And Present Economic Performance.

- Montana's economy is less diversified than most of our neighboring states.

- Economic growth in Montana has lagged behind most of our neighboring states.

- Montana has not maintained the national average in per capita income. Most neighboring states have done better than the national average.

- Employment growth (new job creation) has been slower in Montana than in most neighboring states.

- Agriculture is in decline and agricultural processing, which would create new domestic markets, is nearly non-existent in Montana. Agricultural income per capita was less than $5,000 last year.

- The timber and copper industries may be in permanent decline in Montana even with a national and worldwide economic recovery. BBER estimates 3000 more jobs may be lost in the timber industry by the year 2000.

- Small scale manufacturing is comparatively undeveloped in the state, however, there are some strong companies. This area seems to be one of Montana's best growth potentials.

- Tourism is an important primary industry in Montana in terms of jobs as well as revenues to local businesses. Montana does not have a national or international identity for destination tourism. We need to promote Montana for tourism which is projected to be the largest industry worldwide by the year 2000.

- Montana is the most remote state in the continental U.S. Every other state is at least 500 miles closer to a major population center.

- Transportation (road, rail and air) is one of Montana's most severe and pervasive economic problems, second only to unemployment.

- Montana's production taxes are among the highest in the region.

- The majority of business people interviewed in and outside of Montana viewed Montana as having a negative business climate. This has improved substantially since we did the interviews in 1982.

- Over 90% of Montanans interviewed in the July, 1982 Montana Poll support at least moderate economic growth over the next 5 years. This has been reconfirmed in three subsequent polls.

- While there seems to be adequate loan capital in Montana, we have a very limited equity capital base and no venture capital, which is the life blood of new business, particularly small businesses.

- Montana has an excess of water which if we don't develop plans to use we will probably lose.

- Montana's electrical rates are among the lowest in the nation and likely to remain so over the next 10-20 years.

- Montana has a valuable untapped resource in our University System that must be brought to the forefront to assist the state's economic development.

- States which are doing well economically, without exception, have strong state supported economic development programs.

- States which are the leaders in new technology development and new employment growth have linked together state government, University R&D and business and substantially funded new product R&D. We found no exceptions to this.

- 7000 primary jobs have been permanently lost in Montana since January, 1980. Probably 12,000 secondary jobs.

- Montana's primary job base is about 110,000 and it appears that Montana will require at least 23,000 new primary jobs by the year 2000 to reduce unemployment to 5% and support internal growth at .6%.

- Nationally the average manufacturing job requires a $40,000 investment. We must create 1300 new primary jobs each year between now and the year 2000. That is a substantial challenge for all of us.

- Union membership decreased nearly 20% in Montana from 1982-1983. Only one other state lost as much.

- The energy boom predicted in the 1970's has not and will not materialize in Montana. Coal development reached a peak of about 33 million tons in Montana in 1981. Coal production declined 16% last year to 28.9 million tons.

- Last year Montana coal producers mined 28 million tons of coal and the state collected about $80 million in severence taxes.

- Last year Wyoming mined about 112 million tons of coal and collected over $150 million in taxes.

- Coal taxes now provide over 19% of the state budget. Coal taxes provide funds for education, libraries, parks, the arts, renewable resource and alternative energy development, land-use planning, conservation districts, water development and highway construction.

- It's not accurate to just blame the 30% severance tax for Montana's low production, although it is a contributing factor.

- Electricity demands have declined from 7% per year through the 60's and 70's to about 2% now.

- Over 100 power plants planned for construction in the 80's have been abandoned.

- China, Poland, South Africa, Columbia & Australia are all competing for the same overseas market as U.S. producers. Some even in the U.S. While Montana and Wyoming rail transportation rates for coal to the same market are about equal, Montana's rates are higher to other areas due to the further distance.

- In 1982 we initiated a new coal development strategy to save Montana's coal industry. Our proposed strategy includes:

  - lower severance taxes
  - lower transportation costs (incremental rate decreases for increased volume)
  - increased heating value - coal beneficiation (will lessen the delivered cost per million BTUs)
  - lower production costs

- Montana is 38th per capita income - 16% below the national average.

- We are 49th in manufacturing exports.

- We have a unitary tax which is troublesome to foreign investors. Many Japanese companies will not consider investing in a unitary tax state. That is the position of the Keidanren, Japan's official business organization.

- Montana has some of the strongest environmental preservation and project permitting laws in the U.S. which in many cases, make it tougher and more costly to develop timber, energy, mineral resource and tourism development projects in Montana. These laws and regulations must be continually reviewed and streamlined as much as possible.

- This list is the "unfinished agenda" which we intend to address in 1983 and beyond.

- We have got to figure out a way to expand agricultural processing and marketing and do resource development smoothly in Montana. These are the base of our economy - if we can't make these areas grow profitably, secondary business, particularly small businesses, cannot flourish here.

What has resulted...

- The message of the MEDP was that to improve the state's economy we must move forward on several fronts simultaneously including: expanding our primary industries, particularly increasing processing and manufacturing; assisting small businesses with financing and marketing, promoting tourism, commercializing universities R&D and improving all modes of transportation.

- Montana went from having no real economic development program in 1980 to what I believe are the beginnings of the most progressive economic development strategy of any western state.

- The new economic development programs will be explained this afternoon, so I'm only going to mention them now.

  - Economic Reporting and Forecasting (BBER, U of M)
  - Management Assistance (Commerce Dept. & MSU)
  - Labor Training (Labor Dept.)
  - Community Development (Commerce Dept.)
  - Tourism (Commerce Dept.)
  - Trade Promotion (Commerce Dept.)
  - Highway Development
  - $200 million in new finance capacity (Board of Investments; MEDB; Montana Development Corp.)
  - Montana Technology Development Institute (Proposed - $60 million for 10 years.)

- Other results of Montana's new public private partnership include the Mansfield Foundation and Center For Pacific Affairs, the 49th Parallel Institute, The Center for Business and Management at MSU, the Montana Coal Forum at Montana Tech, The Advisory Council On Science & Technology, The Montana Development Corporation, The MEDB and The Montana Ambassadors.

Montana is in good shape to intelligently and reasonably respond to our problems and take initiatives to seize opportunities.

Montana is a vast potential, mostly untapped. Our economic assets are considerable.

- Montana is annually third or fourth in the nation in wheat and barley production.

  Sixth in timber and wood products.

  Sixth in honey.

  Eighth in cattle.

  Sixth in lamb and wool.

- Montana has a significant amount of the nation's mineral reserves of copper, iron ore, chromium, phosphate platinum, palladium, bentonite, antimony, vermiculite, talc, lime, gypsum, barite, tungsten, lead, gold, silver, gems, other basic and strategic minerals. (The most diverse reserve in the Rocky Mountains.)

- Montana has valuable reserves of oil and natural gas. (Many believe the Overthrust Belt in Montana may have recoverable reserves larger than Saudi Arabia, now the largest oil field in the world.)

- Montana has about 8% of the world's recoverable coal reserves. (75 billion tons sub-bituminous and lignite.)

- Montana's electric utility rates are among the lowest in the nation and will remain comparatively so over the next 20 years...even if Colstrip 3 rate request is included.

- Montana has a large renewable water supply (over 40 million acre feet outflow annually) which, if managed properly, is a tremendous economic and recreational asset.

- Montana has vast expanses of mostly undeveloped land. (147,000 square miles - the 4th largest state, about the size of the Japan Archipelago.)

- Montana's labor productivity is among the top 30% in the nation and received very good ratings by Montana businesses in the MEDP Poll.

- Montana has an expanding manufacturing base with a core of technology based industries which are the fastest growing sector.

- Montana's primary, secondary, vocational and higher educational systems are among the best in the nation. (Montana students consistently score among the top 10 on SAT Tests and Montana has the highest exposure of students to computers in the nation, according to OPI.)

- We have competitive advantages in university and commercial R&D in agriculture, forestry, minerals and mining technology, energy, materials research and applied genetics.

- Tourism, which is projected to be the largest industry worldwide by the year 2000, has hopeful implications for Montana and this region. (Tourism is now one of Montana's most important industries providing jobs and entrepreneural opportunities. It will likely be our best growth industry over the next 20 years.)

- Montana's State Government is one of four states in the U.S. that has not raised taxes in the past two years and has a budget surplus as of June 30, of $57 million projected to be $25-$30 million by June 30, 1985.

- Montana's State Government has excellent bond ratings by the major houses - Moody's rates Montana AA1 and Standard and Poore's rates Montana AA.

- Montana's small population allows access to each other to discuss and resolve our differences...if we are willing to do so.

Montana Business Climate Compared To The U.S.:

- Alexander Grant rated Montana 33rd in 1978; 20th in 1983
- Inc. Magazine rated Montana 28th in 1980; 14th in 1983

- Montana is rated by Alexander Grant as #3 nationally for low energy prices.

- Alexander Grant has rated Montana #1 for the past two years for the ability of the state and local governments to match expenditures with revenues.

- PSC decision on Colstrip, unless modified, will severly harm our economy and may erase many gains.

"People who develop the habit of thinking of themselves as world citizens are fullfilling the first requirement of sanity in our time."

Norman Cousins
Former Editor
Saturday Review

Global trends that may benefit Montana:

- The Pacific Basin is the fastest growing area in the world.

- 9 of the 12 fastest growing economies in the world over the last 10 years are in the Basin, most in Asia: Japan, Taiwan, S. Korea, Hong Kong and Singapore.

- Over half of the world's population live in the countries that border the Pacific Basin.

- The U.S. Census estimates the work force in the industrialized countries will increase only 10% by the year 2000. Asia and the Pacific Basin will increase 55%.

- Beginning in the 80's American trade with the Pacific has exceeded our Atlantic trade - 1973/$30 billion, 1984/$60 billion. Today Asia is our fastest growing market, one-third of all U.S. trade is with Asian countries. 60%-70% of Montana's wheat is sold to Pacific countries annually. 35% to Japan, our largest trading partner after Canada.

- Montana's trade flows are towards the Northwest and Asia. Ten million people live in the corridor from Portland to Vancouver, B.C. In order to increase agricultural production and exports as well as markets for our other products, commodities and resources in Montana, we must expand Pacific Basin markets and attract Pacific Basin investors. I believe that the future growth and diversity of Montana's economy is tied to the growth of the Pacific Basin. Ambassador Mansfield has often reminded us that..."This is the Century of the Pacific...in the Pacific is where our future lies."

- This year the U.S. trade deficit may be $130 billion. The U.S. had no significant trade deficits prior to 1973.

- Over the past 15 years the economy has become planetary, complex and sensitive to economic and political issues. Trade is no longer strickly opportunistic, one shot and short term.

- In the new world economy the keys are long term relationships that endure, long term mutually beneficial trade and investment agreements, exchanges of transnational leverage and cooperation among trading and banking houses and strategic positioning for resources worldwide.

"Ideas do come to life.
Possibilities do become realities.
Dreams do come true.
It is up to us."
Ambassador Mansfield

Herein lies Montana's opportunity...

- This decade we intend to diversify Montana's economy, to increase processing of our agricultural and livestock industries, to increase manufacturing in our timber industry, more mineral and energy processing, as well as develop a variety of technology based industries. We want to export coal to national and international markets and to expand our tourism industry, particularly to develop tourism destination resorts in Montana.

- Montana has world scale agricultural, timber, mineral, energy and water resources. We have a small, well educated and hard working population. We don't have as severe of problems as many other states and countries in terms of a crumbling infrastructure, high crime rates, escalating welfare dependents nor the threats of increased taxes to deal with these problems.

- One of the ways we are working to develop our economy is by forging relationships with trading companies in the Pacific Basin because Montana's economic growth is directly tied to the growth of the Pacific Basin.

- We are working to develop long term relationships for Montana companies, trading upon our vast resource base and high quality living environment and accessing their worldwide information gathering, marketing, financing, organizational and communication capacity that would take Montana a generation, if ever, to develop on our own. (Mitsui and Mitsubishi who have recently joined the MITC are two of the largest trading companies in the world. Their 1983 sales were @ $60-70 billion each.)

- The world has changed drastically since 1970. The concerns of the 60's and 70's with the moral issues of the Vietnam War, civil rights, and Watergate have given way to worries about energy, inflation, taxes, the deficit, balance of payments, terrorism, defense and...survival.

- The economy has become global and interdependent. The anchove catch off Peru; Russian wheat purchases; a drought in Sub-Sahara all effect Montana farmers; Australian beef imports to the U.S. and Japan directly effect Montana ranchers. Canadian energy policy directly effects Montana's economy; Canadian subsidization of their timber industry directly harms the Montana timber companies ability to compete for traditional mid-west U.S. markets, U.S. Tariffs on China's textile imports results in China decreasing U.S. wheat imports which directly effects Montana's farmers; a coup in Chile directly effected the decline of employment in Butte's copper industry and employment in Great Falls and so goes the world...

- The world economy is going through a restructuring. Technology - new materials R&D, bio-genetics, computers, electronics are the tools of rapid economic, political and social change.

- Scientific knowledge now doubles every 5 years - 90% of all the scientists who have ever lived are at work now. Rapid change is the only constant.

- World competition, production, quality, flexibility and least cost are the keys to economic survival and prosperity.

- The technology revolution sweeping the industrialized countries will change our economy and society as profoundly as the industrial revolution changed us from an agrarian culture. The effects of this restructuring we are only beginning to perceive in Montana but one thing is clear - any industry, old or new, that does not utilize the best technology available will not likely survive the decade.

There are many problems that must be solved in Montana in order to take advantage of these opportunities but we must not forget that the future is not predetermined. It will be what we make...or allow it to become by our inaction. We are committed to action...to creating a new vision for Montana and achieving it. We have new financing, marketing and tourism programs. By the end of the 1985 legislature we will likely have a very good technology R&D program focused on improving our primary industry. If we can expend the same amount of human energy, financial resources and public participation this decade on expanding and improving the state's economy as we spent the last decade debating development issues, I believe our successes will pleasantly surprise us.

Thank you.

MITC PROJECTS SINCE LAST OCTOBER

- Co-sponsored the Montana Export Conference with Senator Max Baucus.
- Helped initiate and organize the Montana Ambassadors.
- Co-sponsored the Governor's Trade and Investment Briefing For Japanese Companies.
- Participated in the Western Governors Trade Conference in San Francisco. (20 western states business representatives and 10 Governors met to design a Western States Trade Program.)
- Served on the Governors Advisory Council on Economic Development.
- Initiated the project for a new coal development strategy for Montana and led the public discussion.
- Organized the Cooperative funding for a full-time trade and investment representative in Seattle with the state Commerce Department, MSE, Inc., the Great Falls Foreign Trade Zone and several private companies.
- Served on the Finance Sub-Committee of the Advisory Council on Science & Technology.
- Assisted the MONTCO Mining Company to secure their new mine permit.
- Helped organize and set up the Helena headquarters of the Mansfield Foundation.
- Served on the MSE, Inc. Board of Directors.
- Assisted PLM, Inc. with their Big Horn Fuels Inc. ethanol project.
- One of 30 delegates to attend the Japanese Media Relations Seminar sponsored by the Committee For the Humanities, Salt Lake City.
- Helped initiate and organize the Taiwan Wheat Procurement Mission September, 1984. They purchased @ $15 million of wheat and barley.
- Participated twice on Face the State: May - MITC and the Montana Economy; September - The Coal Severance Tax.
- Organized and hosted the Long Term Credit Bank's meetings with Montana businesses seeking foreign investment, October, 1984.

- Organized and hosted Mr. Isogai the Japanese Consul General's meeting and tour of Montana.

- Served on the Mayor's Blue Ribbon Committee On Economic Development.

- Assisted Coca Mines to permit their Hog Heaven silver mine near Polson which will employ over 100 people.

- Organized and MITC members hosted the visits of Mssrs. Koh Sera, Vice President of Sumitomo and Shizuo Kawanami, Vice President of Mitsubishi.

- Hosted the Korean wheat buyers, May, 1984.

- Made presentations on Montana's economy to a Japanese barley mission, October, 1984.

- Hosted and organized a tour of Montana's beef industry for Mr. Miyabu of the Japanese Development Bank, July, 1984.

- Our Seattle representative, Clint Grimes, organized visits of representatives of several trading companies with Montana businesses, including Sumitomo, Mitsubishi and Ajakawa.

- Presented testimony for a new coal development strategy to the Coal Tax Oversight Legislature Interim Committee.

- Presented testimony to the Water Marketing Study Committee of the legislature.

- Assisting Centennial Minerals to permit their Montana Tunnels gold mine near Jefferson City which will employ 250 people.

This list does not include the dozens of businesses we've assisted over the past year with a variety of problems large and small. The list does not include the seminars, meetings, and conferences at which we've made presentations on Montana's economy, the Build Montana Program, international trade and investment, resource development, taxes, environmental laws and financing. Finally, this list does not include the numerous media interviews we have given for T.V. and radio stations, newspapers, news letters, and magazines the purpose of which are to inform Montanans about our activities and explain what we are trying to accomplish.

Rather than sit by the stream and wish for fish - better to return and make a net.
Chinese Proverb

MITC PLANNING SESSION

- Executive Committee Planning Retreat - December 13
- To assess where we've been - 1974-1984
- Outline and clearly define what we want to achieve - the unfinished agenda.
- Sketch out a work plan, new budget, financial program and schedule.
- Define the role of MITC for the next 1 to 3 years.
- Determine what MITC members want done.
- Decide how the Commission should relate to and work with others in Montana, the region and abroad.
- Focus our limited time and resources on development targets.
- Outline a new strategy for the Commission based on the new realities of economic restructuring, on the global economy wherein some of our best opportunities for business expansion, new economic growth, new investment in manufacturing and processing and tourism are with companies in the Pacific Basin.

GREAT
FALLS AREA
CHAMBER OF COMMERCE

P.O. BOX 2127
926 CENTRAL AVENUE
GREAT FALLS, MONTANA 59403
(406) 761-4434

February 5, 1985

To: Senate Taxation Committee

From: Roger W. Young, President

Subject: ***UNITARY TAX (GOODOVER)***

As an organization very concerned with Montana's economic development future, the Great Falls Area Chamber of Commerce supports the passage of legislation to modify the method by which the Montana Department of Revenue imposes the unitary tax or "combination method" of accounting. Currently, the method used taxes a business by combining all its earnings worldwide. We support Senator Pat Goodover's bill to apply the method to "water's edge" meaning only a company's U.S. operations would come under scrutiny.

The unitary tax often results in double taxation and may not fairly reflect a business's earnings in the State. It definitely impedes foreign investment in Montana, as many Japanese, Hong Kong, Korean and Taiwanese companies have said they simply do not consider investing in states with a unitary tax.

We have become acutely aware on a first-hand basis of this resistance as the Great Falls Economic Growth Council begins its efforts to market the newly designated Foreign Trade Zone in Great Falls. The FTZ can do much to position our community and the State of Montana so as to benefit from foreign investment and enterprise. In almost every instance, our promotional efforts have met strong anti-unitary tax sentiment. If Montana is to remain competitive and send out positive signals, we must roll back unitary/combination method taxation to water's edge. The loss of revenue to the state will be minimal since few, if any, foreign companies are paying the tax now. To our knowledge, only one foreign-parent company has been combined. Future revenue is a moot issue since there will be nothing to tax anyway if the unitary tax barrier is not removed.

In the past year, Oregon, Florida and Massachussetts have turned away from the unitary tax. Legislatures in California, Colorado, Arizona, Utah and Indiana are presently considering repeal. Montana must join the parade if "Build Montana" is to remain in the ball game.

cc: Cascade County Delegation

Enclosure: Foreign Trade Zone Brochure

EXHIBIT 8 -- SB 330
February 14, 1985

COUNCIL OF STATE CHAMBERS - FRED FERGUSON
WASHINGTON, D.C.

APPORTIONMENT FACTOR X INCOME

PROPERTY
PAYROLL / FACTOR
SALES

PROPERTY
PAYROLL / DENOM X WORLDWIDE INCOME
SALES

BASE (AMOUNT PROPERTY, PAYROLL SALES IN U.S.), 50 STATES

50 + WASH. D.C.

1) WATER-EDGE / DOMESTIC CORP

2) WATER-EDGE - STATES NEEDS AUDIT ACCT.

3) PARITY U.S. VS FOREIGN PARENT.

ECON DEVELOPMENT

Unitary Taxation and Worldwide Combined Reporting

A Brief Explanation of Some State and Local Income Tax Issues Facing Multinational and Multistate Businesses in the U.S.

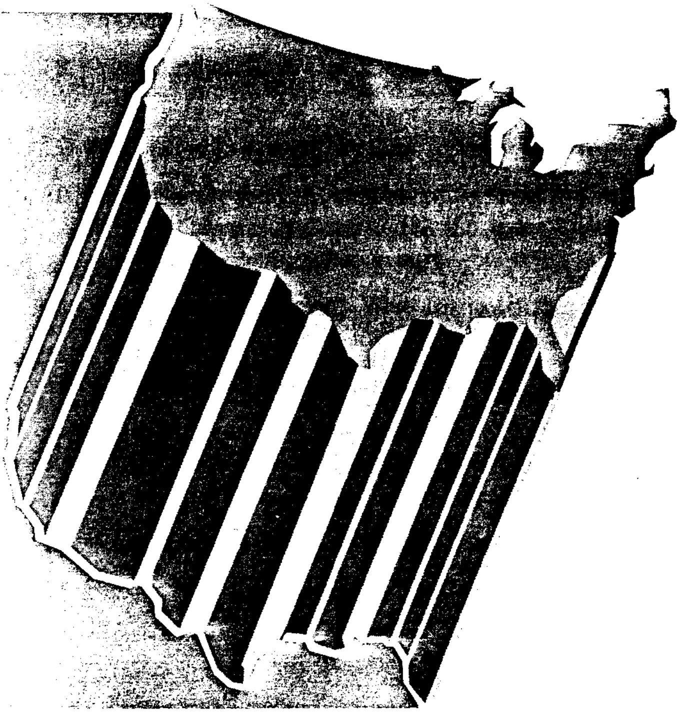
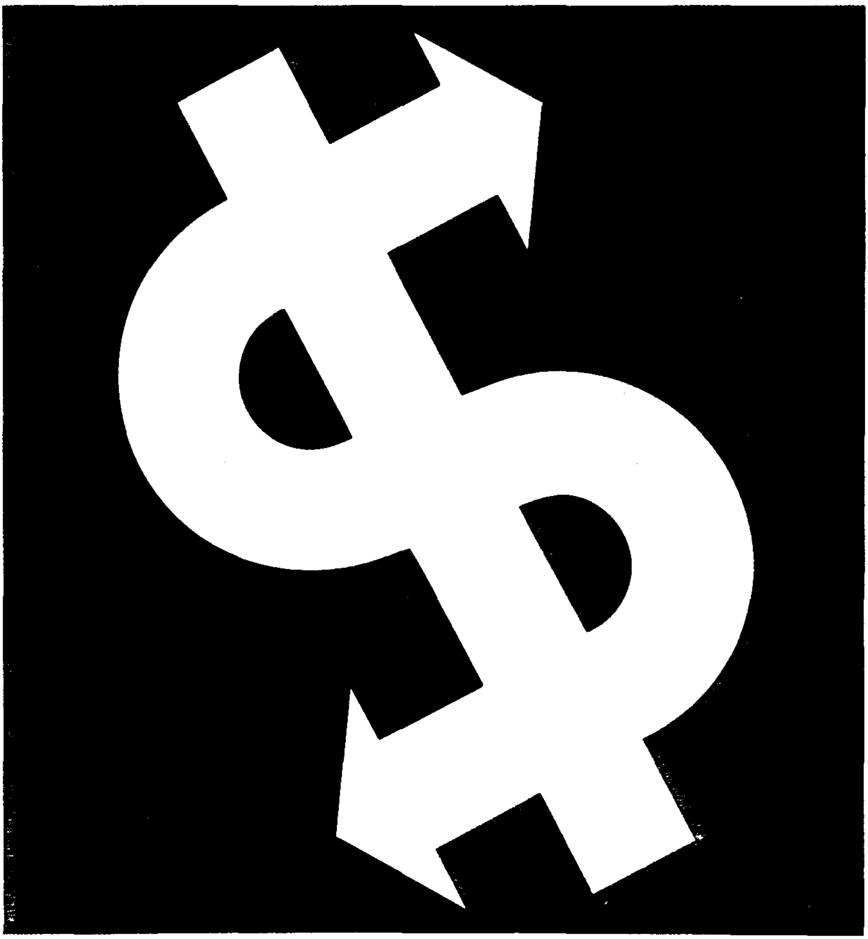


EXHIBIT 9 -- SB 330
February 14, 1985

Ernst & Whinney

Arthur Young
Reports
to Business

Unitary Tax: The Corporate View



Council of State Chambers of Commerce

EXHIBIT 10 -- SB 330
February 14, 1985

SENATE BILL 330
By Goodover, et al
STATEMENT BY CHAMPION INTERNATIONAL CORPORATION
IN SUPPORT OF BILL

MY NAME IS WILLIAM M. KIRKPATRICK AND I AM THE MONTANA GOVERNMENT AFFAIRS REPRESENTATIVE FOR CHAMPION INTERNATIONAL CORPORATION. AS YOU MAY BE AWARE, CHAMPION RECENTLY ACQUIRED ST. REGIS CORPORATION AND I AM PLEASED TO TESTIFY THIS MORNING ON BEHALF OF THE NEWLY COMBINED COMPANY.

TO CHAMPION, THE STATE OF MONTANA IS ONE OF THE MOST IMPORTANT STATES IN WHICH WE DO BUSINESS. MONTANA IS THE STATE IN WHICH CHAMPION OWNS OVER 875,000 ACRES OF TIMBERLANDS; IT IS THE STATE IN WHICH WE HAVE INVESTED OVER $500 MILLION IN MILLS, PLANTS AND EQUIPMENT; AND MOST IMPORTANTLY, IT IS IN MONTANA THAT CHAMPION, WITH OVER 3,000 EMPLOYEES, IS THE LARGEST INDUSTRIAL EMPLOYER.

ON BEHALF OF CHAMPION, I AM HERE TODAY TO TESTIFY IN SUPPORT OF THE PASSAGE OF SENATE BILL 330 ENTITLED "AN ACT TO EXCLUDE CERTAIN INCOME DERIVED FROM SOURCES OUTSIDE THE UNITED STATES WHEN ALLOCATING AND APPORTIONING INCOME FOR PURPOSES OF THE CORPORATE LICENSE TAX."

AS IS EVIDENT BY SIMILAR LEGISLATIVE PROPOSALS IN MANY STATES ACROSS THIS COUNTRY, STATE TAXATION OF CORPORATE INCOME ON A UNITARY, WORLDWIDE BASIS IS BEING RE-EXAMINED, MODIFIED AND EVEN REPEALED. WORLDWIDE UNITARY TAXATION HAS PRODUCED FALSE HOPES OF A WINDFALL IN STATE TAX REVENUES. IN REALITY, THE ONLY WINDFALL SEEMS TO BE FOR THE PROFESSIONS WHICH MUST REPRESENT CLIENTS OR TRY TO ADMINISTER THE CUMBERSOME PROVISIONS OF WORLDWIDE COMBINATIONS.

CHAMPION IS NOT ADVERSE TO PAYING TAXES TO THE STATES WHERE WE DO BUSINESS, BUT LET THOSE TAXES BE MEASURED BY THE STATE'S PROPORTIONAL SHARE OF OUR COMPANY'S BUSINESS IN THIS COUNTRY.

EXHIBIT 11 -- SB 330
February 14, 1985

TO ATTEMPT TO TAX THE EARNINGS OF SUBSIDIARY COMPANIES ALL OVER THE WORLD, REPORTING UNDER DIFFERENT ACCOUNTING RULES, IN DIFFERENT CURRENCIES, SUBJECT TO REPATRIATION RESTRICTIONS AND OTHER FACTORS, DOESN'T MAKE GOOD OR FAIR TAX POLICY.

CHAMPION, THEREFORE, APPLAUDS THE MANY SPONSORS OF SENATE BILL 330 AND ENCOURAGES THE LEGISLATURE TO RECOGNIZE THE NEED FOR THIS FAIR, SIMPLE AND EQUITABLE APPROACH TO TAXATION IN THE STATE OF MONTANA.

\- - -

MONTANA STATE AFL-CIO
AFL-CIO
APRIL 29 1956

Box 1176, Helena, Montana

JAMES W. MURRY
EXECUTIVE SECRETARY

ZIP CODE 59624
406/442-1708

TESTIMONY OF JIM MURRY ON SENATE BILL 330 BEFORE THE SENATE TAXATION COMMITTEE ON FEBRUARY 14, 1985.

Mr. Chairman and members of the committee, I am Jim Murry, representing the Montana State AFL-CIO in opposition to Senate Bill 330, which would rob the state of Montana of desperately needed revenue.

Two themes appear to have dominated discussion in this legislative session: Where are we going to get the money needed to provide the services necessary to run the state? and, How can we most efficiently cut taxes on business ventures? In our opinion, one topic cancels the other out. Passage of Senate Bill 330 would cost the state of Montana $10,000,000 a year.

We are already listing the losses anticipated with passage of additional federal budget cuts. Potential loss of community block grants and federal revenue sharing funds can be devastating to Montana counties and communities. Price supports for family farmers are under attack, and we face the terrible choice of giving a windfall tax break to multinational companies while cutting needy individuals off general assistance rolls.

Montana legislators are already walking a tight line. We cannot in good conscience eliminate a revenue source at this critical point in Montana's history.

We strongly urge defeat of Senate Bill 330.

EXHIBIT 12 -- SB 330
February 14, 1985

MONTANA FARMERS UNION

P.O. Box 2447
300 River Drive North
Great Falls, Montana 59403
(406) 452-6406
1-800-332-5903

TESTIMONY OF TERRY MURPHY, PRESIDENT OF MONTANA FARMERS UNION IN OPPOSITION TO SENATE BILL 330.

I am Terry Murphy, President of Montana Farmers Union, headquartered in Great Falls.
I speak in opposition to SB 330.
We believe in fair and equitable taxation of all people and Corporations in reasonable proportion to the profits they derive from participation in our economic system.
The Unitary Tax Method is the best method so far discovered to establish a reasonable level of taxable income for multinational corporations in a given jurisdiction, specifically Montana. Why they should expect to do business here, take profits <u>from</u> here, and not pay proportional taxes here, is beyond me.

Passage of SB 330 will directly benefit only multinationals--no one else. It is not fair to Montanans or Montana based businesses.

What justification can possibly exist for, in effect, forgiving $10 million or so, in taxes due from some of the world's largest companies?

We're dealing with nearly one third of the State's Corporate License Tax collections. This is not the year to drop over $6 million from the General Fund and $2.5 million from the School Foundation Program.

Let us not open the door to bookkeeping tricks and income shuffling to avoid paying Montana taxes. Retain an effective, legally sound method.
We urge your disapproval of SB 330.

EXHIBIT 13 -- SB 330
February 14, 1985

413 — Unitary
$10 M/YR

What are you going to replace it with — raising property tax?

SENATE BILL NO. 330

INTRODUCED BY Goodover, Hager, Mohar, Hoffmann, McCallum, Story, Keating, Boylan, Smith, Hayden, Weeding, Kolstad, Simon, Mazurek, Rodney, Nathe, Bergne, Hampton, Harding, Hyde, Reeves, Abrams, Miller, Chase, Conklin, O'Hara, Peterson, Stephens

A BILL FOR AN ACT ENTITLED: "AN ACT TO EXCLUDE CERTAIN INCOME DERIVED FROM SOURCES OUTSIDE THE UNITED STATES WHEN ALLOCATING AND APPORTIONING INCOME FOR PURPOSES OF THE CORPORATE LICENSE TAX; AMENDING SECTIONS 15-31-302 AND 15-31-312, MCA; AND PROVIDING AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-31-302, MCA, is amended to read:

"15-31-302. Definitions. (1) "Business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business and includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. The term does not include income derived from sources outside the United States.

(2) "Nonbusiness income" means all income ~~other-than~~ except:

(a) business income~~,~~;

(b) rents and royalties from real or tangible personal property, capital gains, interest, and fees received by a domestic corporation from sources outside the United States which were taxed in a foreign jurisdiction; and

(c) 85% of dividends received from sources outside the United States to which no capital, management, research, development, or other expenses may be attributed.

(3) "Commercial domicile" means the principal place from which the trade or business of the taxpayer is directed or managed.

(4) "Compensation" means wages, salaries, commissions, and any other form of remuneration paid to employees for personal services.

(5) "Sales" means all gross receipts of the taxpayer not allocated under 15-31-304.

(6) "State" means any state of the United States, the District of Columbia, ~~the-Commonwealth-of-Puerto-Rico,-any territory-or--possession--of--the--United--States,--and--any foreign-country~~ or any political subdivision thereof."

Section 2. Section 15-31-312, MCA, is amended to read:

"15-31-312. Apportionment formula -- relief provisions. (1) If the allocation and apportionment provisions of this part do not fairly represent the extent of the taxpayer's business activity in this state, the taxpayer may petition for or the tax administrator may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

~~(1)~~(a) separate accounting, provided the taxpayer's

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activities in this state are separate and distinct from its operations conducted outside this state and are not a part of a unitary business operation conducted within and without this state. For purposes of this part, a "unitary business" is one in which the business conducted within the state is dependent upon or contributory to the business conducted outside this state or if the units of the business within and without this state are closely allied and not capable of separate maintenance as independent businesses.

~~(2)~~(b) the exclusions of any one or more of the factors;

~~(3)~~(c) the inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state; or

~~(4)~~(d) the employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income.

(2) The term "business activity" as used in subsection (1) does not include business activity conducted outside the United States that results in income derived from sources outside the United States."

NEW SECTION. Section 3. Applicability date. This act applies to taxable years beginning after December 31, 1985.

-End-

EXHIBIT 14 -- SB 330
February 14, 1985

(This sheet to be used by those **testifying** on a bill.)

NAME: LOUISE KUNZ DATE: 2/14/85

ADDRESS: 107 LAWRENCE

PHONE: 449-8801

REPRESENTING WHOM? MT-LOW INCOME COALITION

APPEARING ON WHICH PROPOSAL: SB 330

DO YOU: SUPPORT? ______ AMEND? ______ OPPOSE? X

COMMENT: We wish to be on record as opposing THIS Bill. BOTH middle & Low INCOME people REALIZE THAT The TAX system is unfair. Those most Able PAY Little OR NOTHING AT All. RIGHT now A COMMITTEE IS MEETING to decide the fate of unemployed able bodied individuals under the age of 35. There is A serious plot to remove these people from welfare & force THEM to use non-profit shelters because the program will run about 13 million dollars. Yet we are very willing to give multi-national corporations welfare to The extent of reducing revenue by 10 million dollars, 6.4 million of which goes to the general fund. Let's stop giving Business incentive dollars out on The tax side with more willingness than we give living incentive dollars on THE APPROPRIATION side. Let's close the loopholes THAT will THEN allow us to take care of people faced with unemployment, A misfortune not of THEIR OWN CHOOSING. We'd like to know which corporations will get this benefit, which programs will be cut because of

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

The loss of This revenue & will it mean the loss of STATE government jobs? We are already in an enormous financial crunch. How can we consider this large corporate welfare programs.

EXHIBIT 15 -- SB 330
February 14, 1985

OPPORTUNITIES inc.

P.O. Box 2289 • Great Falls, Montana • 59403 • Telephone A.C. 406/761-0310
"Equal Opportunity Employer" M/F

January 3, 1985

Dear Senator Goodover;

The Board of Directors of Opportunities, Inc, a Human Resource Development Council serving Montana Planning District V. at their December 10, 1984 meeting passed a resolution in opposition to the Montana Unitary Tax structure.

They therefore, request your assistance as an elected legislative representative to take such action through introduction and support of legislation to repeal the Montana Unitary Tax.

Sincerely,

Les Stevenson

Les Stevenson
Administrator

LS/jj

EXHIBIT 16 -- SB 330
February 14, 1985