

German Firms in Hampton Roads



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WUNDERBAR! GERMAN FIRMS IN HAMPTON ROADS

Hampton Roads is a favored site of business in the global marketplace of the 21st century. Our region is home to more than 160 foreign companies that represent 22 different European and Asian nations, as well as Australia, Brazil, Canada, Chile, Israel and Mexico. Together these firms have invested many millions of dollars in the region, and they provide jobs to more than 20,000 residents. According to the Hampton Roads Economic Development Alliance (HREDA), at least 28 international companies have established a presence in our region in the last 10 years alone.

Even while some presidential candidates bemoaned the outsourcing of American jobs to foreign countries, Hampton Roads is busy attracting international firms that are engaged in substantial “insourcing” of jobs into the region. In fact, our region is especially well positioned to reap substantial benefits from “insourcing” in an era of increasing economic globalization. Let’s see why this is so, using the example of German businesses that have established subsidiaries here.

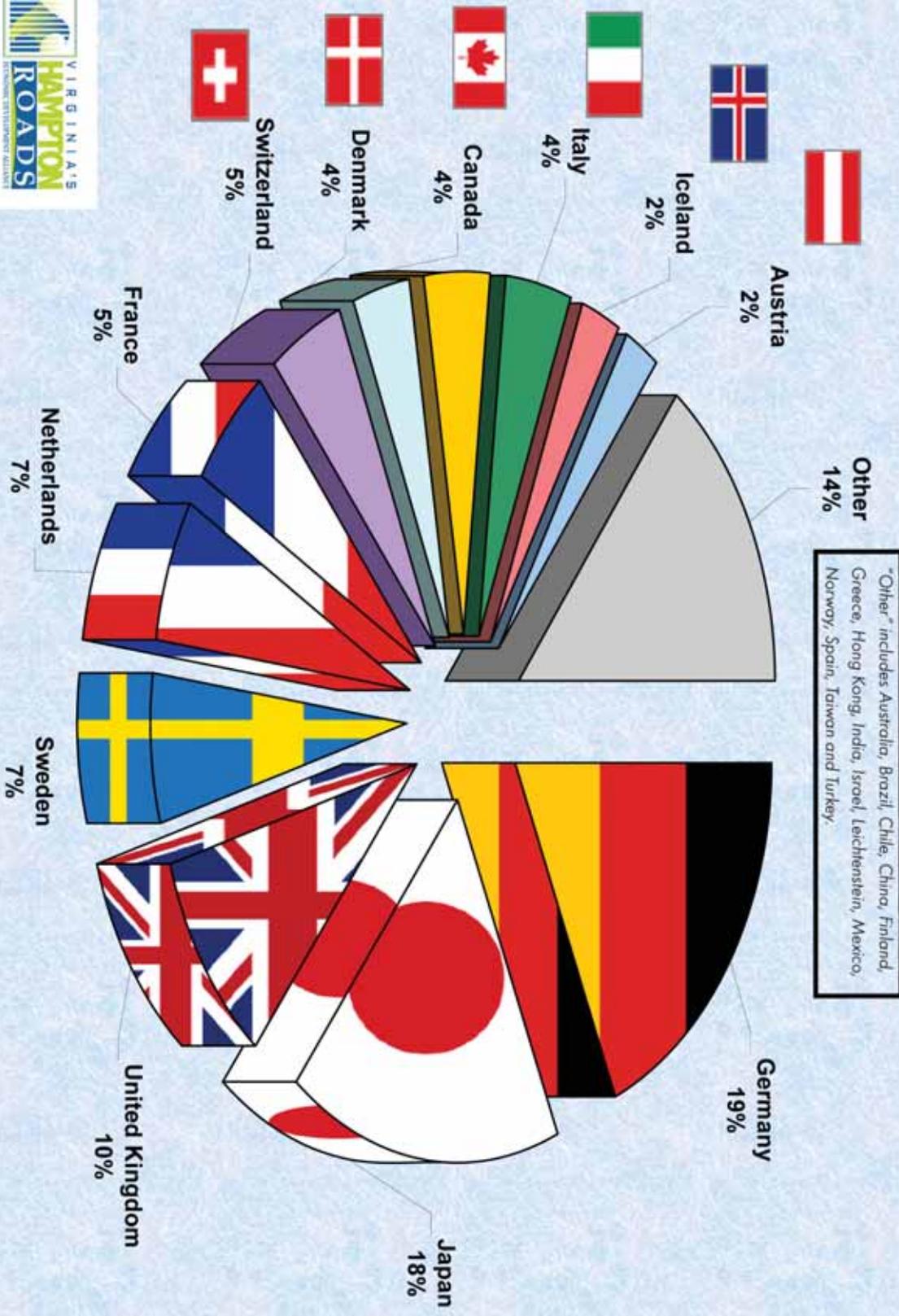
According to HREDA figures from July 2007, 31 companies hailing from the Federal Republic of Germany represent the largest contingent (19 percent) of international firms in our region (see Figure 1). Japan ranks a close second with 18 percent, followed by the United Kingdom, Sweden and the Netherlands. German companies in our region sell and distribute consumer goods such as kites, bicycles and patio furniture. Others manufacture industrial products like centralized lubrication systems, planetary gears and coated and bonded abrasives. Still others develop and produce specialized computer software and high-tech electronics. In all, German companies employ more than 4,000 Hampton Roads workers. Stihl, Continental (formerly Siemens VDO Automotive) and Liebherr rank among our region’s largest manufacturers.¹

Further, the jobs these firms provide tend to be high paying. A recent Dartmouth College study found that compensation in 2005 at foreign-owned companies in the United States was 31 percent higher than the U.S. average (as reported in *The Wall Street Journal*, June 23, 2008). By our own standards, then, these firms are good employers.

¹ The construction equipment manufacturer Liebherr was founded in southern Germany in 1949. Today the headquarters of Liebherr-International AG are located in Switzerland, although it continues to maintain a large presence in the Federal Republic of Germany. Liebherr’s plant in Newport News, which was established in 1970, employs around 360 Hampton Roads residents.

FIGURE 1

International Firms in Hampton Roads (% by Country)



Updated 07/18/2007

Reasonable efforts have been made to assure accuracy; however, HREDA provides this data 'as is' and assumes no liability arising from its use.

Germany's Economic Impact: Facts and Figures

The economies of the United States of America and the Federal Republic of Germany are linked in a close and mutually beneficial relationship. According to the 2007 United States-German Economic Yearbook, the U.S. is Germany's most important trading partner outside the European Union. Likewise, Germany is the United States' most important trading partner within Europe – ranking behind only Canada, Mexico, China and Japan in its total share of bilateral merchandise trade.

A recent study completed by the Representative of German Industry and Trade has found that German firms account for 13.1 percent of the 5.1 million jobs created by foreign-owned affiliates in the United States. Approximately 669,000 U.S. residents are employed by subsidiaries of German companies; only firms hailing from the United Kingdom have created more jobs (see Table 1).

The United States' largest German employer (67,000 jobs) is the great conglomerate Siemens USA, which produces light rail vehicles, baggage handling equipment, radiation therapy systems and much more. (Until recently, Siemens was also one of the largest employers in Hampton Roads. In December 2007, Siemens sold its VDO Automotive business – including its Newport News fuel injector plant – to Continental, yet another German firm.)

The next largest German employers in the United States are Turner Construction and The Great Atlantic & Pacific Tea Co., which are owned by the German conglomerates Hochtief and Tengelmann.

The Commonwealth of Virginia – and the Hampton Roads region in particular – plays an important role in the U.S.-German economic relationship. Virginia ranks ninth among all 50 states in U.S. merchandise exports to Germany with \$1.2 billion in 2005 (see Table 2). Ten percent of Virginia's foreign exports – chiefly computers and other electronic products – are sold to Germany; only Canada purchases more Virginia goods. Virginia ranks 12th among the states in the capital stock investment of German companies (\$4.7 billion in 2004), and it ranks 18th in the number of jobs created by these companies (13,900 in 2004). A 2008 directory published by the German-American Chamber of Commerce indicates that roughly one-quarter of Virginia's German-owned firms are located in Hampton Roads

The Hampton Roads Planning District Commission estimates that the total output of our region's German firms approaches \$2 billion. In 2008, these companies will add roughly \$810 million to our gross regional product, and \$420 million to our region's total personal income. As Table 3 discloses, approximately 8,700 Hampton Roads jobs have been created directly or indirectly by German businesses.

UNITED STATES			VIRGINIA		
	Employment	% of Employment by all U.S. Affiliates		Employment	% of Employment by all U.S. Affiliates
TOTAL	5,116,400		TOTAL	133,700	
United Kingdom	920,800	18.00%	Japan	16,800	12.57%
Germany	668,600	13.07%	United Kingdom	16,800	12.57%
Japan	614,200	12.00%	Netherlands	15,100	11.29%
Netherlands	481,100	9.40%	Germany	13,900	10.40%
France	451,600	8.83%	France	10,000	7.48%

Source: www.rgit-usa.com/fileadmin/media/downloads/German_Business_Matters_2nd_edition_2007_.pdf

**TABLE 2
A STATE-BY-STATE LOOK AT THE U.S.-GERMAN ECONOMIC RELATIONSHIP**

Top 20 States in Employment by U.S. Affiliates of German-owned Companies (2004)		Top 20 States in Capital Stock Investment by U.S. Affiliates of German-owned Companies (2004)			Top 20 States by U.S. Merchandise Exports to Germany (2005)			
	Employment		Capital Stock Investment		Exports to Germany			
1	Michigan	78,100	1	Michigan	\$23.7 B	1	California	\$4,266 M
2	California	51,800	2	Texas	\$12.0 B	2	South Carolina	\$2,357 M
3	New York	49,600	3	New York	\$ 9.0 B	3	New York	\$2,222 M
4	Pennsylvania	37,600	4	Indiana	\$ 8.7 B	4	Massachusetts	\$2,151 M
5	New Jersey	35,200	5	New Jersey	\$ 8.6 B	5	Illinois	\$1,781 M
6	Illinois	34,300	6	Kentucky	\$ 8.1 B	6	Texas	\$1,716 M
7	Ohio	34,200	7	Ohio	\$ 7.9 B	7	Alabama	\$1,640 M
8	North Carolina	28,900	8	Illinois	\$ 7.1 B	8	New Jersey	\$1,294 M
9	Texas	26,700	9	California	\$ 7.0 B	9	Virginia	\$1,179 M
10	Indiana	26,400	10	Pennsylvania	\$ 6.7 B	10	Ohio	\$1,108 M
11	South Carolina	20,500	11	Missouri	\$ 5.4 B	11	Michigan	\$1,057 M
12	Florida	20,400	12	Virginia	\$ 4.7 B	12	Pennsylvania	\$ 913 M
13	Georgia	17,200	13	North Carolina	\$ 4.3 B	13	Georgia	\$ 837 M
14	Massachusetts	16,800	14	South Carolina	\$ 4.3 B	14	Connecticut	\$ 832 M
15	Connecticut	15,400	15	Georgia	\$ 3.5 B	15	Florida	\$ 762 M
16	Missouri	15,300	16	Wisconsin	\$ 3.0 B	16	Arizona	\$ 743 M
17	Wisconsin	14,200	17	Florida	\$ 2.8 B	17	Indiana	\$ 700 M
18	Virginia	13,900	18	Washington	\$ 2.8 B	18	North Carolina	\$ 685 M
19	Kentucky	13,400	19	Louisiana	\$ 2.7 B	19	Tennessee	\$ 677 M
20	Tennessee	10,500	20	Alabama	\$ 2.7 B	20	Minnesota	\$ 617 M

Source: www.rgjt-usa.com/fileadmin/media/downloads/German_Business_Matters_2nd_edition__2007_.pdf

**TABLE 3
THE ECONOMIC IMPACT OF GERMAN FIRMS
IN HAMPTON ROADS, 2008**

Total Output (millions)	\$1,870
Contribution to Gross Regional Product (millions)	\$ 810
Total Employment	8,708
Total Personal Income (millions)	\$ 420

Source: Hampton Roads Planning District Commission

German-American Business Ties: Past and Present

The origins of today's German-American economic ties began in the rubble of World War II. In 1945, the United States, together with Britain and France, occupied the western areas of a defeated Nazi Germany. The subsequent European Recovery Program (or "Marshall Plan") supplied \$1.4 billion of aid and loans to the recovering West German economy, laying the groundwork for the close-knit economic and trade relations that have linked the United States and the Federal Republic of Germany ever since. Marshall Plan dollars provided a solid foundation for West German democracy – and for a speedy postwar economic recovery. During the "miracle" years of the 1950s, the economy of the Federal Republic could boast a growth rate of about 8 percent per year. By the 1960s and 1970s, more and more West German businesses were expanding overseas. (The first subsidiaries in Hampton Roads date from this era.) The United States became a valued customer of West German goods, as well as an important political ally and patron in a time of Cold War.

Business in the young Federal Republic of Germany flourished with the initial jumpstart of U.S. assistance. Even so, German companies did not strictly adhere to the model of American-style capitalism. Shaped by the devastation of the immediate post-World War II era, German firms instituted worker benefits and protections that were and are largely unheard of in the United States. Today, German employers continue to invest large sums in worker training and apprenticeship programs; their desired return is a loyal and highly skilled workforce. The social market economy of the Federal Republic is grounded upon an ethic of social consensus and collective responsibility that stands in contrast to the more individualistic, laissez-faire interpretation of capitalism in the United States. This has not been achieved without costs, however. The rate of growth of the German economy has consistently lagged that of the United States and its rate of unemployment typically has been about 1.5 times that of the U.S.

Regardless, today the German economy is one of the strongest in the world. Germany is the 14th-most populous nation, yet it is the world's leading exporter in terms of the proportion of its economy devoted to exports. Its Gross Domestic Product (GDP) is the third largest (behind only the United States and Japan), and 37 of its businesses made Fortune magazine's "Global 500" list of the world's largest companies. (Of these firms, only Continental currently maintains a presence in Hampton Roads; BASF ceased production in Portsmouth in August 2007.)

Germany's top businesses include banks, insurance companies, pharmaceutical concerns, and the world-renowned automakers Daimler, Volkswagen and BMW. Deutsche Post and Deutsche Telekom (once Germany's state-owned mail and telecommunication services) also rank high; they are now best known for operating the international shipping service DHL and the wireless network provider T-Mobile. These and numerous other German firms have earned a worldwide reputation for skillful engineering and high standards.

Large conglomerates may be the most recognized face of German business around the globe, yet they are only one part of their country's economic success story. Philip Glouchevitch, author of "Juggernaut: The German Way of Business," states that it is "small and medium-size companies that form the true backbone of the German economy." There is, in fact, a unique German word – *Mittelstand* – that describes such companies, which typically have fewer than 500 employees and less than €50 million in annual sales. Many are privately owned or family businesses and they thrive on an ethic of high-quality production similar to larger companies like Daimler and BMW. *Mittelstand* companies often specialize in unglamorous yet critical niche markets, like the manufacture of ball bearing slides or high-pressure paint sprayers – to provide two examples of firms with Hampton Roads subsidiaries (Schock Metall and WIWA Wilhelm Wagner). Taken together, *Mittelstand* companies represent nearly half of Germany's GDP and one-quarter of its total exports. They also make up a large contingent of those German firms that have taken up residence in Hampton Roads.

The great question for German business today is whether its formula for economic success in the 20th century can carry over into the 21st. Much has changed in the last 20 years. The end of the Cold War allowed East and West Germany at last to reunify, but this political achievement has not been without economic costs. An inflexible, high-cost labor market – a chief disadvantage of the German social market economy – has kept unemployment in Germany stubbornly high, particularly in the former eastern states. Further, new low-wage competitors in countries such as China and India pose a growing challenge to German (as well as American) companies. In Germany, this situation has been exacerbated by the rising value of the euro against the dollar and other world currencies.

In response to such challenges, many German companies have sought to establish or expand their presence overseas, particularly in the large and lucrative U.S. market. Other companies are exploring new, lower-cost sites of

production that nevertheless might maintain the high standards of quality that are typically associated with a “Made in Germany” label. As we shall see, Hampton Roads is well positioned to take advantage of both developments.

Why Hampton Roads?

A handful of the German-owned firms in our region, such as the Lehigh Cement and Triangle Brick companies in Norfolk and Portsmouth, “became German” through their acquisition by foreign interests such as Heidelberg Cement and Röben Tonbaustoffe. Many more firms, however, purposefully selected Hampton Roads as a base of their U.S. subsidiary operations. Let’s examine the most important reasons why.

LOCATION, LOCATION, LOCATION

One of Hampton Roads’ greatest assets in attracting German and other European firms is its geographical location. Nearly all of the executives with whom we spoke emphasized that our region’s central East Coast location was a decisive factor in their moves here. To begin, a site in the Eastern time zone eases telephone contact between U.S. subsidiaries and their European parent companies. (By contrast, the 8-9-hour time difference separating Europe from the U.S. West Coast means that the workday in Berlin is over before it has even begun in Los Angeles.) Transatlantic travel times are shortest from the American East Coast.

Even more important, Hampton Roads is situated near the geographic center of the Atlantic coast. As aptly noted on HREDA’s Web site, “six of the ten largest population centers in the U.S.A. are located within 750 miles (1206 km) of Hampton Roads.” Our region’s two major airports provide direct service to New York City, Boston, Atlanta, Charlotte and other East Coast hubs. I-64 and nearby I-95 provide direct (if sometimes congested) highway access. Hampton Roads is a convenient home base for conducting business throughout the United States.

Another advantage related to Hampton Roads’ location is its abundance of still undeveloped land, particularly in localities like Chesapeake and Suffolk.

According to a Virginian-Pilot article from July 2007, the availability of inexpensive land was a chief reason for (Austrian company) IBS of America’s recent expansion in Chesapeake. Land and office space continue to be more affordable in Hampton Roads than in many urban centers.

THE PORT OF VIRGINIA

The marine terminals in Norfolk, Newport News and Portsmouth are another critical asset. Self-described as “the largest intermodal facility on the U.S. East Coast,” the Port of

Total Cargo in Millions of U.S. Dollars					
Exports			Imports		
1	China	\$1,411.16	1	China	\$4,982.50
2	Germany	\$1,387.84	2	Germany	\$3,616.43
3	United Kingdom	\$1,265.19	3	United Kingdom	\$2,222.63
4	Belgium	\$1,087.78	4	Brazil	\$1,983.28
5	Netherlands	\$1,072.40	5	France	\$1,733.12
6	Brazil	\$ 700.96	6	Japan	\$1,696.26
7	Japan	\$ 674.51	7	Italy	\$1,596.28
8	Saudi Arabia	\$ 621.42	8	India	\$1,302.33
9	Egypt	\$ 596.71	9	Netherlands	\$ 771.61
10	Spain	\$ 538.85	10	Spain	\$ 684.89
Total Cargo in Thousands of Short Tons					
Exports			Imports		
1	Italy	3,444.43	1	Norway	2,151.25
2	Brazil	2,718.76	2	China	1,887.05
3	Belgium	1,920.58	3	Canada	1,166.94
4	United Kingdom	1,482.64	4	Brazil	977.73
5	France	1,396.57	5	Germany	1,684.60
6	Netherlands	1,191.36	6	Iceland	477.97
7	China	1,078.20	7	India	465.45
8	Spain	1,067.51	8	Italy	441.79
9	India	938.16	9	France	387.43
10	Egypt	900.95	10	Bulgaria	372.02

Source: www.vaports.com/PDF/2006_KPI.pdf

Virginia handles more than 2 million containers annually. Portsmouth's new Maersk terminal facility, which opened in July 2007, is expected to move another 1 million containers per year. More than 95 percent of the world's shipping lines provide service to Hampton Roads, linking us (according to HREDA) "to more than 380 ports in over 115 locations worldwide." The Federal Republic of Germany is one of the Port of Virginia's most important trading partners. In 2006, Germany was second only to China in the total dollar value of both exports and imports handled at the port (see Table 4).

The Port of Virginia is clearly an important engine of international business in Hampton Roads, yet not all of the executives with whom we spoke identified it as pivotal to their residence here. For expediency, some firms rely primarily on airfreight. Others conduct business with Hampton Roads' rival ports in Savannah, New York/New Jersey and even nearby Richmond. Ironically, the proliferation of global trade networks and competition among ports means that the port next door may not always offer the most convenient or the lowest-cost service. As one East Coast port official put it to us, "Port competition can be cutthroat."

OUR REGIONAL LABOR FORCE

According to recent data from the U.S. Bureau of Labor Statistics, Hampton Roads' per capita income is \$34,595, compared to \$36,307 for the entire United States. This may not seem like good news, yet lower-than-average wages enhance Hampton Roads' attractiveness in the eyes of international businesses seeking to establish or expand U.S. subsidiaries. At the same time, international businesses tend to compensate their employees above regional averages because higher skill levels are required. Hence, in the long run, international companies typically add attractive, high-wage jobs to our regional economy.

Hampton Roads residents provide international firms with more than competitive labor costs. Our region's 12 colleges and universities contribute to an educated, well-trained workforce, as does our region's large military presence. Each year approximately 15,000 personnel leave the U.S. military in Hampton Roads, providing area employers with a competent and reliable source of potential labor. **The makeup of our labor force is attractive to international firms, although many of the executives with whom we spoke have experienced consistent difficulties filling positions that require specialized technical or mechanical skills. Because the industrial and high-tech sectors of our regional economy are thinner than in other parts of the country, we do not have a large pool of the kind of specialized talent that some firms demand.**

THE HAMPTON ROADS ECONOMIC DEVELOPMENT ALLIANCE

Our regional advantages would be meaningless if no one outside Hampton Roads knew much about them. Happily, we have an effective cheerleader – the Hampton Roads Economic Development Alliance (HREDA), whose mission is to market Hampton Roads in the United States and abroad "as the preferred location for business investment and expansion." Formally established in 1997, the alliance represents and is cooperatively funded by 15 localities in southeastern Virginia.

In 2007, representatives from HREDA participated in 22 different international trade shows, conferences and marketing missions all over the globe. Several of these events took place in Germany, which has received special attention in the alliance's initiatives. HREDA maintains a consulting office in the German city of Bremen (its other international offices are located in China and the United Kingdom), and it has advertised our region's assets in the journal *German American Trade* and the German American Chamber of Commerce's economic yearbook.

These efforts appear to be paying off. **In the last decade, no fewer than 10 new German businesses have put down roots in Hampton Roads. Our conversations with company executives indicate that early interactions with HREDA were often key to their consideration of Hampton Roads as a potential site for conducting business.** The alliance further assisted these executives in coordinating preliminary visits to different Hampton Roads localities, as well as in assembling regional experts to advise them on banking, immigration and other legal matters.

OTHER SOURCES OF PUBLIC SUPPORT

HREDA is our region's largest and most visible agency dedicated to the recruitment of international firms, but other sources of public support exist as well. Both the Commonwealth of Virginia and individual localities have offices dedicated to international development. **Chesapeake, particularly, has been proactive in attracting international talent. Approximately one-quarter of the German businesses in our region have made Chesapeake their home.**

Other programs aiding German firms in our region include the James City County Technology Incubator, which supported Mombaur International Consulting Solutions LLC in its recent move to Toano. At the state level, the trade missions of the Virginia Economic Development Partnership and the Virginia Leaders in Export Trade program have assisted Solo Inc. (a lawn and garden equipment manufacturer) in enhancing its international sales. Solo, like several other German firms in our region, uses its Hampton Roads office not only to reach the U.S. market, but also to conduct business elsewhere in Asia and the Western Hemisphere.

Our Competition

Needless to say, Hampton Roads is not the only East Coast metropolitan area seeking to attract international companies. Our main competitors include other Southern port cities like Jacksonville and Savannah, as well as major airline hubs like Atlanta, Charlotte and Northern Virginia. From an international perspective, here are some of our region's significant weaknesses:

- *Transatlantic airline connections* – Hampton Roads' two major airports do not currently offer regular international commercial flights. To reach any European capital, travelers must first change planes in another U.S. city.
- *Traffic conditions* – Nearly all large metro areas suffer from road congestion, but Hampton Roads is uniquely constrained by its network of "chokepoint" tunnels and bridges. Traffic is a growing problem in our region, with no immediate solution in sight.
- *Image* – International executives are immediately familiar with names like Boston, New York, Washington, D.C., and Atlanta. Fewer recognize Hampton Roads, or would be able to place our region on a map. Due to the efforts of HREDA and others, this situation is gradually changing. For now, however, our unfamiliarity can present an initial hurdle when establishing new business relationships.

Our Region's "German Establishment"

In terms of the value of our exports, Germany is the second most important trading partner of the Port of Virginia (see Table 4). Germany also ranks second in terms of the value of our imports from it. German firms in Hampton Roads are a very important part of this picture. Here is a brief introduction to Hampton Roads' most established German firms.

In the 1960s and 1970s, four manufacturing companies – Stihl, Solo, Bauer Compressors and Busch – founded subsidiaries in Newport News, Norfolk and Virginia Beach. All have expanded their regional operations considerably in the intervening decades. A significant portion of their production and assembly for the American (and in some cases, world) market now takes place in Hampton Roads. Rather than seeking to compete with the lowest-cost manufacturers, these companies occupy a global market niche that is grounded upon high-quality service, design and production. Figure 2 shows their locations within Hampton Roads. Note the strong concentration of firms within South Hampton Roads, especially the city of Chesapeake.

FIGURE 2
GERMAN FIRMS IN HAMPTON ROADS



STIHL INC.

Stihl represents one of the great success stories of German business in Hampton Roads. This chain saw and power tool manufacturer established its first American plant in Virginia Beach in 1974. Today the facility occupies more than a million square feet on an 83-acre campus. **Stihl is one of the largest manufacturing firms in all Hampton Roads, and it is the largest in Virginia Beach.** In October 2007, the company dedicated a new \$25 million guide-bar plant; a \$10 million warehouse expansion is slated for completion this year. Stihl products proudly occupy the higher end of the portable power tool market; they are sold only by independent dealers who can guarantee a high standard of customer service.

To ensure that the Virginia Beach plant's production quality remains correspondingly high, the company sponsors an intensive apprenticeship program that is modeled after German practices. This competitive program, to which all Stihl employees may apply, involves more than 8,000 hours of practical and theoretical training. Evening classes held at Tidewater Community College are part of the program requirements. The payoff for the apprentices' commitment is substantial. As Vice President Peter Mueller recently explained in the journal *German American Trade*, "Coming out of the 4-year program, tool and die makers earn US \$40,000 to \$50,000. With some overtime included, their earnings can be higher than a starting engineer newly out of college."

SOLO INC.

Solo can claim the longest history in our region of all German firms. Since 1967, this lawn and garden equipment manufacturer has maintained a subsidiary in Newport News. In the United States, Solo is best known for its line of backpack sprayers, which allow gardeners and other agricultural workers to apply herbicides or other chemicals in a precise and efficient way. Solo began to produce these sprayers in Newport News in 1987, and today company president David J. Longfield estimates that Solo holds an approximately 65 percent market share of the U.S. backpack sprayer market. The Newport News location is Solo's largest sister company worldwide and it is still growing, Longfield emphasizes, citing the company's recent large-scale investment in new production equipment.

BAUER COMPRESSORS INC.

Bauer Compressors established its Norfolk office in 1976. It has since grown to become a 115,000-square-foot facility for production and assembly, serving as a headquarters for U.S. branch offices in Miami, Los Angeles, San Francisco and Detroit. Bauer manufactures high-pressure compressors that are used for a wide variety of purposes, including breathing tanks for fire-fighters and scuba divers, natural gas vehicle refueling stations, and even air-powered markers used for playing paintball. Company president Jan von Dobeneck estimates that Bauer compressors are currently used by 60 percent to 70 percent of all U.S. fire departments, including in most Hampton Roads localities.

Bauer has enjoyed a close relationship with Old Dominion University for several years. Bauer (like Stihl and Continental) is a member of the Frank Batten College of Engineering and Technology's Corporate Circle. The company has also received support through the Virginia Applied Technology and Professional Development Center that is operated through the ODU college. Finally, Bauer provides regular internship opportunities for ODU students, many of whom later accept permanent positions within the firm.

BUSCH LLC

Busch is yet another German business with deep roots and a continuously expanding presence in Hampton Roads. Busch designs and manufactures high-performance vacuum pumps that are used for a wide variety of industrial and commercial applications. In Virginia, Busch vacuum systems are used by companies such as B.I. Chemicals and American GFM to create specialized conditions that are necessary for production. Local hospitals utilize Busch vacuum pumps as well, according to its president, Charles W. Kane. Busch pumps are sold in more than 45 countries worldwide. The company's U.S. headquarters was established in Virginia Beach in 1975, and it has produced vacuum systems for the American market since 1979.

The Newer Faces of German Business in Hampton Roads

In the last decade, a new generation of German firms has set up operations in Hampton Roads. Several are engaged in high-tech industries that barely existed when companies like Solo and Stihl first put down roots in our region. For now, their economic footprint here is small. Most maintain only small offices for service and distribution – but like their predecessors, they may expand their presence in years to come. The following are examples of Hampton Roads' newest German firms.

BLOCK USA L.P.

The German electronics company Block GmbH has manufactured and repaired transformers for nearly 60 years. In 2000, it established its first U.S. affiliate, Block USA, in the Greenbrier area of Chesapeake. In Germany, Block produces hundreds of sophisticated components, including transformers, power supplies and filters for eliminating harmonic distortion. Block USA is responsible for the sales and distribution of these components throughout the United States and Canada. The Port of Virginia and Hampton Roads' central location were decisive reasons for the company's location in our region, according to managing director Mike Griese.

CEOTRONICS INC.

CeoTronics was also attracted by Hampton Roads' convenient East Coast location. This German manufacturer of quality radio headsets relocated its U.S. subsidiary from Dallas to Chesapeake in the summer of 2000. The company has since moved to a smaller space in Virginia Beach, after deciding to maintain only a sales and distribution (rather than production) facility on this side of the Atlantic. Because of their relatively high price point, Europe remains the largest commercial market for CeoTronics products. The company's headsets and digital radio networks are, however, widely used by the U.S. armed forces, as well by fire/rescue and law enforcement authorities. Sales manager Jack Darden estimates that CeoTronics possesses a 70 percent to 75 percent market share in the sensitive area of bomb disposal communications.

HQ KITES & DESIGN USA

Hampton Roads is not only a convenient site for conducting transatlantic business; its coastal location is also advantageous for flying kites. These assets encouraged a young German company named InVento to relocate its American subsidiary to our region from West Hurley, N.Y., in 2005. From its Chesapeake office, HQ Kites & Design USA now distributes single-line kites, power kites and wind spinners to wholesalers throughout the United States. Kitty Hawk Kites on the Outer Banks of North Carolina is one of the company's strongest retail outlets. President Tim Baxmeyer estimates that HQ Kites has grown by 10 percent to 15 percent per year since its arrival in Hampton Roads.

INIT INNOVATIONS IN TRANSPORTATION INC.

INIT has also expanded rapidly since establishing its North American headquarters in Chesapeake in 1999. As described on its Web site, INIT "develops, produces, installs and maintains integrated hardware and software solutions for all key tasks required within transportation companies." INIT has helped to improve the efficiency of transportation networks in Europe, North America, Australia and Dubai. In Virginia Beach, an INIT tracking system coordinates the timing of VB Wave trolleys that carry passengers along the oceanfront. In January 2007, the company announced its move to a new 26,600-square-foot facility in the Greenbrier district. In its new location, INIT will partner with another German firm, Altec GmbH, to form Total Quality Assembly LLC, "a manufacturing operation of higher end cable assemblies that are part of INIT's custom hardware components."

MÜHLBAUER INC.

Mühlbauer's business is "tecurity" – the development of high-tech, secure solutions for the storage of data on passports, radio-frequency identification labels, and contact and contactless cards of all kinds. In the United States, Mühlbauer technologies can be found in California and Washington driver's licenses, as well as in "smart" baggage identification labels at the Las Vegas McCarran Airport. Founded in the small town of Roding, Germany, in 1981, Mühlbauer now has a well-established global

presence, with more than 1,600 employees in 26 locations worldwide. Mühlbauer opened its American headquarters in Newport News in 1995. Initial plans to construct a \$20 million manufacturing plant in the Jefferson Center for Research and Technology did not come to fruition, but general manager Gerald Steinwasser reports that the company will soon open a facility with two large showrooms in the Oakland Industrial Park.

Lessons to Be Learned

Hampton Roads' appeal as a site of international business is a strength that we should celebrate and foster. International firms have brought thousands of jobs and millions of investment dollars to our region, a reality that seemed to have eluded several presidential candidates. Moreover, the presence of these businesses may help to alleviate some of the pressures associated with America's current economic downturn. A weak U.S. dollar, coupled with a growing pool of local workers seeking new or different employment, is likely to enhance Hampton Roads' attractiveness for international businesses in the months and years ahead.

The presence of German companies in our region is particularly valuable for a variety of reasons. The Federal Republic of Germany is one of the world's most prosperous economies. German companies enjoy a worldwide reputation for superior service and production; they are willing and able to invest considerable resources in their foreign subsidiaries. In Hampton Roads, many of these firms are respected as good employers and responsible corporate citizens. Stihl's new guide-bar plant in Virginia Beach is topped by the largest privately funded green roof in the Commonwealth of Virginia. Before leaving Portsmouth in 2007, BASF contributed to institutions like the Portsmouth Community Foundation and the Norfolk Botanical Garden; it received a 2005 Community Impact Award from the United Way of South Hampton Roads.

Given the current strength of the euro and high domestic labor costs, it is likely that German firms will continue to explore opportunities for overseas expansion in the foreseeable future. Because of the specialized technical demands of many successful German companies, the cheapest sites for global production may not necessarily be the most appealing. Hampton Roads can provide an attractive "middle way" for German companies seeking to maintain their global edge. **Our region offers a flexible and reliable labor force, as well as a longstanding tradition of German-American cooperation through NATO and U.S. military institutions.** Furthermore, we can point to a thriving core of German businesses already in our region. A recent HREDA advertising campaign attests to Hampton Roads' status as "a leader in world class international business" by featuring top executives from Liebherr and Stihl.

Despite these important affinities, Hampton Roads has recently lost as well as gained firms from the Federal Republic of Germany. In 2006, the packaging materials manufacturer Storopack moved its Virginia Beach office to a larger facility in Winston-Salem, N.C. In 2007, Portsmouth lost \$1.1 million in annual tax revenue when BASF consolidated its production of superabsorbent polymers into a single new facility in Freeport, Texas. This year, shipping line Hapag-Lloyd announced that it would substantially downsize its Virginia Beach office. These moves appear to be motivated by macro-level restructuring decisions, rather than any particular dissatisfaction with Hampton Roads affiliates. Nonetheless, the losses remind us that our regional authorities must remain proactive in cultivating and maintaining successful partnerships with German (and other international) firms.

