

## Chattanooga Choo Choo

**With a new production facility in the works, VW is gearing up for a big push in the U.S.**

*Volkswagen has big goals. The German car manufacturer plans to sell 800,000 automobiles annually in the U.S. by 2018. Tennessee is thrilled at the prospect of new jobs.*

By Katja Ridderbusch

What is a burden for some might be a blessing for others, goes the old saying. And it could prove to be very true in the case of the failing U.S. auto industry. As the big three, Ford, Chrysler and General Motors, find themselves on the verge of bankruptcy, struggling with structural change, a harsh economic downturn, unsteady fuel prices and fading consumer loyalty, Germany's biggest carmaker could become a beneficiary of the crisis.

Volkswagen has decided to make an aggressive move into the American market. For the first time since the company shut down its plant in Pennsylvania about 20 years ago, VW will invest \$1 billion to build a new production site in Chattanooga, Tennessee. Starting in 2011, Volkswagen aims to build 150,000 new mid-sized sedans annually, exclusively designed for the U.S. market. A groundbreaking ceremony on the 1,350-acre site is planned for January.

The future VW plant in Chattanooga is an important step for Volkswagen in fulfilling its long term "Strategy 2018." By then, the German carmaker wants to sell 800,000 vehicles in the United States alone.

The trend among American consumers may help VW's ambitions, as is shifting from big, fuel-hungry pickup-trucks and SUVs traditionally produced by American automakers to smaller, more fuel efficient cars made by Japanese and European companies. "If any of the big three goes under, VW will have the golden opportunity to fill the void," said Tom Harrold, a corporate lawyer and partner in the Chattanooga-based law firm, Miller & Martin.

Expectations are running high in Chattanooga, an old manufacturing town, which American bandleader Glenn Miller famously wrote a song about, "Chattanooga Choo Choo." The city managed to transform itself from being the worst air polluter in the U.S. in the late 1960s to a truly "green city" with a riverfront park, restored wetland ecosystem and bike paths.

After an eight-month recruiting process, Chattanooga on July 15 won over its competitors, Huntsville, Alabama and Detroit, Michigan. "The infrastructure already available and the readiness of the site made Chattanooga the most logical choice to meet our demanding deadlines," said Frank Fischer, VW's team manager for the new facility. The fact that the city of Chattanooga and the state of Tennessee also offered an attractive \$577 million package in assistance and tax breaks over 30 years may have helped VW executives to make up their minds.

At Volkswagen headquarters in Wolfsburg, there is no concern that the current financial crisis and looming recession may impact the future production. "We will continue our construction process on schedule," said Fischer. "We are here on a long term commitment." VW hopes that

by the time production begins, the economy will have recovered.

The most important thing the city and region of Chattanooga hope to receive from the deal is jobs. “This is what folks here really look at, plain and simple,” said Trevor Hamilton, vice president of Business Development at the Chattanooga Area Chamber of Commerce. Lately, the region had suffered from layoffs in the textile mills and the slump in the housing and construction market.

Volkswagen promised the new plant will create 2,000 jobs. Furthermore, an economic impact study conducted by the University of Tennessee came to the conclusion that the project will create an additional 9,000 jobs from suppliers, dealers and other spin-off business. According to Harrold, “the VW project will greatly benefit the whole region” including the neighboring states of Georgia and Alabama.

In Chattanooga and at Volkswagen, people think they have a good reason to be optimistic as they look at the examples of prominent German automakers, which previously brought prosperity to the Southeastern United States: Mercedes Benz opened a plant in Vance, Alabama in 1993. More than 41,000 jobs in Alabama are directly or indirectly linked to the facility, and more than 90 suppliers have settled in the state, working not only for Mercedes but also for Japanese carmakers Honda and Toyota. About 5,400 people work for the BMW plant in Spartanburg, South Carolina, and more than 8,500 for one of the 40 suppliers in the region. “The Southeast is clearly becoming the new epicenter of U.S. auto manufacturing,” said Harrold.

Yet German automotive analysts remain skeptical. Christoph Stürmer, an automotive analyst with Global Insight, a market research firm based in Frankfurt, says while VW’s new business plan for the U.S. “sounds promising,” the goal of selling 800,000 automobiles in the U.S. by 2018 was “a bit of a bold vision.” Even though he says he is convinced that this is a perfect time for tackling the U.S. market, he doubts whether VW’s brand image in the U.S. will be strong enough to really support that much growth.

However, there will always be the consumer demand, says Harrold. “The predominant means of travel for Americans are automobiles,” he said. “Some company will have to make them – why not VW?”

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