

Testimony
of
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Trade, and Technology

Good morning Madam Chairman, Ranking Member Maloney, Chairman Oxley, Ranking Member Frank, Majority Whip Blunt and Members of the Committee. My name is Jeff Anderson and I am the Executive Director of the Virginia Economic Development Partnership.

I am pleased to be here today to represent the Commonwealth of Virginia. The Virginia Economic Development Partnership is the state's lead agency for helping existing businesses expand and attracting new businesses to Virginia. My agency partners with local and regional economic development organizations across the state to promote Virginia's positive business climate to growing companies in the U.S. and abroad.

I will explain to you how Virginia benefits from foreign direct investment, which is encouraged by the open business climate of the United States. Since I have no expertise in the workings of the Committee on Foreign Investment in the United States (CFIUS), I will not be addressing that issue today.

Foreign Investment in Virginia

In 1607, an English business venture called the Virginia Company established the Jamestown Colony as a commercial project. That enterprise became the Commonwealth of Virginia. Almost 400 years later, I believe Virginia continues to be fertile ground in which foreign companies can grow.

The U.S. Bureau of Economic Analysis (BEA) tracks foreign direct investment at the national and state level. In 2003 (most current data) Virginia had 144,800 people employed by foreign companies. To put that employment figure in the context of two localities in Northern Virginia, 121,400 people worked in Loudoun County and 167,400 worked in Prince William County in 2003, according to the Virginia Employment Commission. Virginia accounts for only 2.5% of foreign employment in the U.S., but those jobs are very important to those 144,800 people. Foreign investment in Virginia totals \$19.6 billion, and Virginia accounts for 1.6% of all foreign investment in the U.S.

The Virginia Economic Development Partnership has tracked announcements of planned job creation and capital investment by foreign companies since 1980. In the past 26 years, 61,900 jobs and \$9 billion of investments have been announced for Virginia by foreign companies. Jobs announced by foreign companies represent 11% of all announced employment, and foreign investment accounts for 19% of all announced investment. The top countries for foreign employment are Germany, the United Kingdom, Japan, Canada, and Sweden. These countries represent 72% of all foreign employment. The leading countries for foreign investment are Germany, Japan, the United Kingdom, Denmark, and Canada. These countries represent 79% of all foreign investment. Virginia also has foreign companies from China, Iceland, India, Ireland, Israel, Mexico, and South Korea. Some industry sectors in Virginia with high levels of foreign direct investment are information technology, transportation equipment, electronics, plastics, rubber, and machinery manufacturing. Not all foreign direct investment is for big projects. The average size, based on jobs created, is 71 jobs but the median is 30 jobs created. The average size, based on capital investment creation, is \$10.39 million but the median is \$1.50 million.

The Organization for International Investment (OFII) analyzed the BEA data to determine the national average compensation per employee was \$59,981 for U.S. subsidiaries of foreign companies. This compares to national average annual pay of \$37,508 as calculated by the U.S. Bureau of Labor Statistics (BLS). Unfortunately, the BEA does not provide enough data at the state level for a similar comparison for Virginia. VEDP analysis shows the foreign affiliated projects which received discretionary grants from Virginia had an average salary of \$44,671 in 2005. This is higher than the average salary for Virginia of \$40,117 as calculated by the BLS. This analysis supports OFII's position that employees at foreign affiliated companies in the U.S. make higher than average wages.

The Virginia Economic Development Partnership

The Virginia Economic Development Partnership is the lead economic development agency for the Commonwealth of Virginia. One of the main selling points for Virginia is that it offers some of the most competitive operating costs in the U.S. Virginia has a business climate that is advantageous to all types of companies.

Foreign investment has long been a priority for Virginia. In 1968, Virginia became one of the first states to set up an overseas investment office in Europe when it opened an office in Brussels, Belgium. VEDP's investment office moved to Frankfurt in 1996. Successful foreign companies in Virginia not only continue to reinvest in their operations here, they become examples to other companies in their home country and to other companies in their industry. Their success makes it easier to attract similar companies to Virginia. VEDP also maintains proactive investment offices in Japan, South Korea, and Hong Kong. The agency's trade offices in Mexico and Brazil offer investment assistance as needed. VEDP maintains an aggressive marketing program to attract foreign companies to Virginia, as staff in Virginia and the overseas offices make direct calls on foreign-owned companies. VEDP is in the process of analyzing emerging international markets to determine which ones will produce investment activity in the coming years. Through ongoing strategic analysis, VEDP expects to continue to increase the level of foreign investment in Virginia.

Companies have a choice in making a location decision, and the transparent business regulations and open legal system of the U.S. help to keep Virginia competitive in the international marketplace. Competition for companies is now global, not just with neighboring states. Recent projects have pitted Virginia against countries in Asia, Eastern Europe, and Latin America. Virginia has a business-friendly environment, but increased regulations for foreign companies will reduce the attractiveness of Virginia and the U.S. in the global competition for businesses. Government regulations should not be an obstacle in companies' decision-making process.

Foreign Companies in Virginia

Instead of giving you more numbers about foreign businesses in Virginia, I will describe some of their successes.

Infineon – Based in Germany, (formerly White Oak Semiconductor) operates a semiconductor plant in Henrico County that employs 1,700 people. The initial 1996 announcement was for a 600,000 square-foot semiconductor manufacturing complex, which has been expanded twice

since then. Infineon's most recent expansion was in 2004 when it announced it would hire an additional 1,200 employees through a \$1 billion investment to move forward with plans (delayed by market conditions) to manufacture memory chips using 300-mm wafers.

- Robert LeFort, President of Infineon Technologies North America Corp. cited that “the Commonwealth of Virginia has been a great partner in supporting the development of Infineon by providing performance based grants, training assistance and support for higher education,” and that Richmond offers “excellent infrastructure and state-of-the art manufacturing expertise” that enables Infineon “to quickly bring 300mm capacity on line in a way that is consistent with our corporate capital expenditure plans and thus make this the fastest and most cost effective way for us to respond to changing market conditions.”

In addition to the direct benefits the Infineon plant brings to Virginia, VEDP has identified 85 supplier companies that have located to Virginia to support Infineon's operations.

Volvo – In 1981, the Swedish company Volvo AB acquired the White Motor Company of Ohio, including its heavy truck production plant in Dublin, Virginia. General Motors took a minority stake in Volvo-White Corporation in 1986, but by 1994 Volvo Heavy Trucks North America was exclusively part of Volvo AB. In 1999, Volvo announced plans to double the size of its plant through an investment of \$148 million and the creation of 1,277 jobs. Although market forces resulted in lower than expected employment creation, the investment went ahead as planned, so Pulaski County has benefited from increased tax revenues generated by the larger plant and additional machinery.

- At the time the project was announced, Marc F. Gustafson, the then-president of Volvo said “... we are moving ahead in Virginia, where state and business development leaders lend their support to expand employment opportunities for residents. The success of our company hinges on our people, like the 600 new employees we hired recently. Together ... we will all work together to help expand our business throughout North America.”

Starting in 2003, Virginia's Volvo plant also began producing Mack trucks. Volvo currently employs more than 3,000 people in the southwestern part of the state, which has helped diversify the region's economy away from its traditional industries of coal mining, furniture, and textiles.

Maersk – In 2004, the Danish shipping line Maersk and its sister company APM Terminals announced they would spend \$450 million to build a new container terminal in Portsmouth that will employ 210 people after it begins operations. This facility is the first privately developed container terminal in the U.S. Maersk’s current facility is adjacent to the Port of Virginia, so this expansion also will allow the state to improve capacity at its port operations.

- “This facility will create opportunities in global commerce for our customers while maintaining the highest standards in safety and security. Our vision is to create a port that will act as a catalyst for international business in the local and regional economies by creating a new, broader long term platform for business growth,” said Thomas Thune Andersen, President & CEO, Maersk Inc.
- The Virginia Port Authority (VPA) has its own Police Department that is comprised of 76 state officers, sworn and certified through the Department of Criminal Justice Services. VPA officers provide access control and terminals security 24 hours a day, 7 days a week. U.S. Customs is also present at the ports offering constant and thorough inspection of cargo, as well as protection services. The U.S. Coast Guard is responsible for patrolling the surrounding waters. Additionally, Maersk will provide its own security personnel to help protect its assets.

The new Maersk terminal ties into VEDP’s Global Logistics initiative. In addition to the deepwater terminals in Hampton Roads, other components of Virginia’s transportation system are 6 interstates; 9 commercial airports, including Washington-Dulles International; and two major railroads, Norfolk Southern and CSX. VEDP wants to help Virginia become the global logistics hub for the East Coast. Our continued partnering and investing with domestic and foreign entities is critical to the implementation of this strategy.

Stihl – Located in Virginia Beach, STIHL Inc. is one of seven manufacturing facilities of Germany’s STIHL Group. STIHL employs approximately 1,600 people in a 700,000 sq. ft. facility with manufacturing and warehouse space. The Virginia Beach operation began in 1974 with only 50 people. STIHL expanded its manufacturing space in 1983, in 1990 and again in 2004. The company opened new warehouse facilities in 1996 and 2004. In 2005 STIHL announced a \$78.4 million expansion of its manufacturing facility which would create 150 new jobs. This announcement was one of the largest investments in the history of the company.

- Fred Whyte, President of STIHL Inc. said, “Although we export to more than 80 countries, the United States is still the largest market for our products. Consequently, expanding manufacturing in Virginia Beach has repeatedly proven to be a sound business decision for STIHL.”
- “Since arriving here more than 25 years ago, STIHL has constantly pursued the most innovative manufacturing methods possible. Our expansions and manufacturing investments are driven by our need to keep pace with growing customer demand for our products around the world. The highly skilled and dedicated workforce in Virginia Beach and Hampton Roads has been key to successfully keeping pace with this demand.”
(Peter K. Mueller, Executive Vice President of Operations)

BAE Systems – The British company BAE Systems provides information technology solutions to a variety of federal government agencies, including the Department of Defense, the armed services, and the Department of Homeland Security. In May 2005, BAE Systems announced an investment of \$25 million to establish a new information technology work center in Fairfax County to support the company’s expanding federal IT business which should create 700 new jobs over the next two years. BAE has been in Fairfax County for more than twenty years and has continued to invest and add jobs, making them one of the top 25 private sector employers in Fairfax County, providing over 2,000 jobs in that community alone. BAE also operates in other Northern Virginia locations and in Hampton Roads.

- BAE Systems’ rationale for choosing Virginia was explained by BAE Systems Information Technology President Bill Shernit, “Virginia, and Fairfax County in particular, has a strong, pro-business climate, an educated workforce, an excellent communications infrastructure and is in close proximity to our major customers.”

Koyo Steering – In 1999, the automotive supplier Koyo Seiko of Japan announced it would set up a new operation in Virginia’s Shenandoah Valley near the city of Roanoke that would employ 200 people with an initial investment of \$37 million. Koyo builds parts for U.S. automakers as well as the Japanese factories in the U.S.

- “The Roanoke Valley of Virginia is the best location for Koyo to start this new venture,” Secretary of Koyo Steering Systems of USA Akihisa Muyama said. “The experience of other Japanese companies in the region gave us confidence that we would be successful here.”

In 2005, Koyo expanded the plant through a \$36 million investment.

- Plant Manager John Goetz said “Koyo Steering Systems USA has found an ideal location in Botetourt County”.

Essel Propack – The Indian company Essel Propack chose Danville as the location for its first U.S. manufacturing facility in 2002. Essel is one of the first Indian companies to set up operations in Virginia. The company has expanded twice since then in less than three years with the most recent expansion in 2005 to invest \$15 million in the facility to allow the company to supply laminated tubes and caps to Procter & Gamble and other toothpaste and cosmetic product companies in the United States. Essel has helped Southside Virginia diversify its economy during a period which has seen the decline of the textile industry and reduced tobacco output.

- Manuel Diez, Essel Propack America LLC Executive Vice President, cited Danville and Virginia as the ideal place for his company to be and expand for the following reasons: Danville’s strategic location and excellent business climate, the area offers adequate industrial infrastructure, a skilled workforce, a quality education system to train their employees, excellent transportation access, and significant cost benefits, the strong partnership between the local government and Essel Propack, and an efficient process where Danville respected their tight timelines.

Virginia’s foreign company activity has been on an upward trend since 1994. Based on VEDP’s current pipeline of projects, foreign investment should continue to play an important role in Virginia’s economic growth. We currently are pursuing projects with major multinational companies in the medical equipment, energy, metal building materials, food products, and plastics industries.

In addition to the companies and activities listed above, the following list outlines notable foreign companies with an existing Virginia presence in key industry sectors:

Advanced Manufacturing

Food Processing

- Nestle (Switzerland)
- Lipton (U.K.)

Natural Resources

- Alcan Packaging (Canada)
- DaiEi Papers (Japan)
- Titan Cement (Greece)

Chemicals

- Boehringer Ingelheim Chemicals (Germany)
- Goldschmidt Chemical (Germany)
- Mitsubishi Gas Chemical (Japan)

Plastics/Polymers

- Amcor Packaging (Australia)
- Klockner Pentaplast (Germany)
- Toray Plastics (Japan)

Science & Research

Biotechnology

- Biovail Technologies (Canada)
- Novozymes Biologicals (Denmark) (Germany)

Research & Development

- Celanese Acetate (Germany)
- Degremont North American Research (France)

Energy

- ABB Power Generation (Switzerland)
- Framatome ANP (France)

Services & Security

Information Technology

- CGI-AMS (Canada)
- BAE Systems (U.K.)

Finance & Insurance

- Cap Gemini (France)
- Royal Bank of Canada (Canada)

Professional & Business Services

- Canon ITS (Japan)
- Nortel (Canada)

North American Headquarters

- Airbus (France)
- Wolseley (U.K.)

Transportation

Automotive

- Continental Teves (Germany)
- Volvo (Sweden)

Aerospace

- Agusta Westland (Italy)
- Rolls Royce (U.K.)

Global Logistics

- Maersk (Denmark)
- NYK Logistics (Japan)

Warehouse/Distribution

- Food Lion (Belgium)
- HUDD Distribution Services (Denmark)

Conclusion

Virginia has a long history of participating in the international business arena. The success of foreign businesses in Virginia currently translates into 144,800 Virginians employed by foreign firms. VEDP's analysis of its announcements data for foreign companies from 2003 to 2005 shows every job created by a foreign company supports an additional 1.59 jobs across Virginia. The success of Virginia's existing foreign businesses makes it easier for VEDP to attract other growing international companies to Virginia. Many of the foreign manufacturers in Virginia have been so successful here that their products are exported to markets abroad.

Madam Chairman, thank you again for calling this hearing and letting me explain how foreign direct investment is an integral part of Virginia's economy. Foreign direct investment has become a politically charged topic, but I hope I have been able to describe how FDI is important to Virginia and the U.S. I also hope my testimony helps this committee as it considers new legislation.