

GERMAN AMERICAN TRADE

MAR/APR 2013

Annual Economic Forum 2013 in Chicago

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**Welcome to the C-Suite:
Torsten Gessner, CEO of ThyssenKrupp North America**

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2013 - A Year of Anniversaries

As our Annual Economic Forum in Chicago recently expressed, Germany continues to be an essential source of growth in Europe amidst the several imbalances existing within the continent.

The backbone of the German economy has traditionally been small and medium sized businesses. Many companies of the German Mittelstand are often hidden champions and world market leaders in their respective fields. They are continuously investing in the U.S. among other markets alongside the larger and well known corporations.

To assist these local subsidiaries and to further the dialogue, the German American Chamber of Commerce of the Southern U.S. (GACC South) will host the German Mittelstand – Southern Small and Medium Sized Enterprises (SME) Forum in Nashville, Tennessee on April 22.

This all-day business event offers attendees a platform to exchange ideas while building relationships with new business partners and offers the occasion to gain notice on the latest business practices. Held in correspondence with the German Mittelstand – Southern SME Forum, the GACC South will also elect the 2013 Board of Directors as part of the Annual General Meeting.

Another signature event in 2013 for German-American business relations will be the “Deutsch-Amerikanischer Wirtschaftstag” on June 4 in Hamburg, Germany which is jointly organized by all AHK USA offices.



*Martina Stegmeier,
President & CEO at GACC South*

This year also marks a year of anniversaries for our German American Chamber network – the Representative of German Industry and Trade (RGIT) celebrates 25 years, the GACC South 35 years, and the German American Chamber of Commerce of the Midwest (GACCoM) 50 years of supporting bilateral trade.

As we look back on the accomplishments of these past years we will remain committed to building successful partnerships that promote trade and growth within this transatlantic relationship between Germany and the United States.

Sincerely,

Martina Stegmeier

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Trying to Solve Germany's Electric Car Problem

Germany's electric car industry is struggling. Still, small companies in Berlin are looking to make the sector more appealing - or are looking for completely different solutions altogether. According to them, the biggest problem why people don't invest in electric cars is because they are still afraid that they won't be able to find a charging station and that their car will just run out of power. The German government has said it plans to reach one million electric cars by 2020. Currently, there are merely 4,500 of them on Germany's streets. Most people agree that the 2020 electric car target won't be met.

>> www.dw.de

Volkswagen Passenger Cars Brand Grows Deliveries

The Volkswagen Passenger Cars brand began the year with a rise in vehicle deliveries: The company handed over 491,900 (January 2012: 419,100) models to customers worldwide, an increase of 17.4 percent over the comparable prior-year period. According to a company statement, the Volkswagen Passenger Cars brand has made a satisfactory start to the year in spite of the continuing difficult market conditions in Europe, and has grown deliveries, particularly in North America. While a decline in the European market was primarily attributable to the continuing tense situation in Western Europe, developments outside Europe were positive.

>> www.volkswagenag.com

Germany Welcomes Obama's EU-U.S. Free Trade Call

Germany, Europe's biggest economy, has welcomed President Barack Obama's endorsement of free trade negotiations between the United States and the European Union. A spokesman for Chancellor Angela Merkel says Obama's comments "were probably the most important signal to Europe" during the President's State of the Union address. The German government in Berlin thinks that a free trade deal would be a "valuable contribution towards more growth and jobs" on both sides of the Atlantic and hopes the groundwork for formal negotiations can be laid before the end of June 2013.

>> www.usnews.com



Exclusive cartoon for German American Trade by Heiko Sakurai www.sakurai-cartoons.de

German Government May Implement Energy Storage Incentive

Germany has impressed many with its low cost solar electricity and substantial solar industry growth, both of which are unparalleled, even by countries with more readily available sunlight. The country which enjoys solar electricity at half the cost of the United States may now implement an incentive to encourage the private installation of battery banks to store solar energy. Germany was the first to introduce feed-in tariffs (FIT) in 1991. After the expansion of the FIT scheme in 2000, and a seven-fold increase in solar power generating capacity took place within five years. Battery energy storage systems can make solar power completely adjustable and dispatchable.

>> www.cleantechnica.com

Bavarian Brewing Tradition Comes to New York

A top German hotelier is planning on bringing the Bavarian brewing tradition to New York. Rudy Tauscher, previously long-time general manager of the five-star Mandarin Oriental New York hotel, is set to open the Paulaner NYC, Brauhaus and Restaurant in 2013. Tauscher has signed an exclusive licensing deal for America's East Coast with Munich's Paulaner brewery, and has plans to establish a dozen micro breweries in the coming years. Beer will soon be brewed in New York using copper vats imported from Germany, under the supervision of a German master brewer.

>> www.deutschland.de

Bill Could Allow German Expats to Vote in Upcoming Elections

German citizens living abroad may be able to participate in the upcoming parliamentary elections, planned for September 2013. The Committee on Internal Affairs in the German Bundestag gave the green light to a bill that would amend the federal parliamentary election law. The changes would permit Germans living abroad to again be eligible to vote, provided that they had lived in Germany for at least three consecutive months by age 14 and that the stay occurred no longer than 25 years ago.

>> www.germany.info

What Exactly is Germany's 'Energiewende'?

Germany's ambitions to completely restructure its energy sector have been talked about so much that the very word which stands for the current policy change - "Energiewende" - has even made it into the English language - but what exactly does this term mean? In a nutshell, it describes the country's politically supervised shift from nuclear and fossil fuels to renewable sources of energy. This idea of a changing power path helps explain the literal translation: "energy turn."

>> www.dw.de

German Vocational Training Model in the U.S.

U.S. President Barack Obama made strengthening home-based industrial production a key pillar of economic policy in his 2012 State of the Union address. However, turning U.S. products into globally recognized industrial brands that stand for quality and cutting edge technology faces a skills problem. U.S. universities are known for their academic excellence, but graduates often lack the practical experience. "Skills Initiative" is a

German initiative that is spreading vocational training in the U.S.

>> www.dw.de

Why Germany is Failing to Boost its Birth Rate

A study commissioned by the German government has reached a crushing verdict on the country's efforts to boost its low birth rate, saying billions of euros are being wasted on complex benefits and tax breaks that are largely ineffective and in some cases counterproductive. Europe's largest economy spends some EUR200 billion (\$270 billion) on promoting children and families per year - almost two-thirds of the federal budget. But its birth rate, at 1.39 births per woman aged 15 to 49, remains among the lowest in Europe.

>> www.spiegel.de

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Biggest Cities
(pop.mio)

U.S.

NYC
20.0
(#6)

GER

Berlin
3.5
(#128)



Defense Spending
(\$bn 2009)

661.0

47.5



Forested Area
(mil.hectars, 2010)

304.0

11.1



Population
over 60

18.2%

26.0%

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Wanted: Skilled Workers

Despite a rising employment rate in Germany, many industries are urgently looking for qualified personnel. It is an issue the federal and state governments have been trying to tackle for some time, and demographic change is likely to intensify the problem in the future. In light of the labor crunch, the German government decided in 2011 to adopt a systematic approach to attracting professionals. The program has set concrete objectives and measures meant to shape specific programs.

>> www.germany.info

Volkswagen Opens 32-Acre Solar Park in Tennessee

Volkswagen is increasing its investment in the United States. The company, headquartered in the northern German city of Wolfsburg, just opened its largest solar thermal power plant in the U.S. state of Tennessee. The Volkswagen Chattanooga Solar Park produces 9.5 megawatts at peak performance. According to a company statement, Volkswagen is proud to introduce the largest solar park in the United States owned by a car manufacturing company. It was stressed that this foray into renewable energies underlines the commitment of the Volkswagen brand to global environmental protection.

>> www.germany.info

German Manufacturer Kemmerich Builds U.S. HQ in Murray, KY

Following a productive meeting with company officials in Germany last summer, Gov. Steve Beshear joined company and local officials in Murray, KY, to announce Kemmerich USA will establish a manufacturing operation and its U.S. headquarters in Calloway County. The project, which brings 120 new, full-time jobs and a

\$12.2 million investment to the Commonwealth, is the second new location announcement by a German-owned company in Murray within the past two months. Kemmerich was established in Germany more than 115 years ago and has been a key supplier to the automotive industry for more than 50 years. The company is an original equipment manufacturer in several international markets, and produces stamped and welded components for a variety of automotive manufacturers.

>> www.lanereport.com

Art Cologne Collaborates Again With U.S. Galleries

After cooperating for the first time in 2012, Germany's leading art fair, Art Cologne, has announced that it will continue to work with the U.S. gallery association New Art Dealers Alliance. The New York-based association will present contemporary art in its own area at the Cologne art fair. Overall, more than 200 galleries are slated to present their works at the 47th Art Cologne this year. The fair is scheduled to run from April 19 to 22, 2013.

>> www.germany.info

Porsche 2013 U.S. Sales May Top Record 35,000 of 2012

German group Porsche's U.S. sales in 2013, benefiting from growing demand for two-seaters, may top the record 35,000 sports cars and SUVs delivered in 2012. U.S. sales of the Volkswagen-owned Porsche division rose 21 percent last year, Porsche U.S. chief Detlev von Platen reported. According to the company, Porsche is quite optimistic about the outlook. Strong demand for Porsche models was noticed and there is currently a clear momentum going. The U.S. market accounts for about a quarter of Porsche's sales.

>> www.reuters.com

Bilfinger Buys U.S. Water Firm in Drive for New Customers

German group Bilfinger, which has shifted to servicing industrial plants from construction, will buy water technology company Johnson Screens for around EUR 100 million (\$134 million) to access customers in the United States. The exact price of the transaction was not revealed, however, according to the company, it represented 8-9 times earnings before interest, taxes and amortization of the company. Johnson Screens, owned by Weatherford International, had sales including revenue from minority partners of EUR160 million in 2011, compared with Bilfinger's EUR 8.5 billion.

>> www.reuters.com

German Firms Lead EU in Innovation

Among the 27 EU member states, Germany has one of the highest proportions of enterprises with innovation activity, according to a Eurostat survey. The survey by Eurostat, the statistical office of the European Union, focuses on product and process innovation, as well as organisational and marketing innovation. Only enterprises with at least 10 employees were covered and the sectors included in the survey were - among others - manufacturing, telecommunications, transportation, financial and insurance activities, wholesale trade and publishing.

In the ranking, Germany takes the lead with 79% innovative enterprises.

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"Nothing Left to Derail the Labor Market"

As we approached the end of 2012, one of the biggest concerns was that the uncertainty about the looming fiscal cliff would deter companies from investing – and hiring. And while spending on equipment and software did indeed show some weakness, the labor market did not. In fact, employment gains even accelerated towards the end of the year. According to the Bureau of Labor Statistics, private payrolls increased a solid 225,000 per month in the fourth quarter of 2012, compared to a monthly rate of 175,000 in the previous three quarters. It is important to note that this improvement was broad-based, as it occurred in both services and manufacturing industries. This development should convince even the biggest skeptic that the U.S. economy is finally out of the woods. After all, the fourth quarter of 2012 was not only affected by uncertainty about the fiscal cliff, but also saw the East Coast being hit by one of the largest storms ever, and did not show any GDP growth. So you might ask yourself, what could bring the U.S. labor market down these days, if fiscal brinkmanship, a natural disaster of epic dimensions and a stagnant economy combined did not succeed? The simple answer is: apart from possible geopolitical events, probably nothing! In my view, this resilience is based on a combination of two factors. First, businesses have dramatically improved their cost situation in recent years. Most strikingly, nonfarm productivity jumped by more than 5% during the crisis year 2009, as companies slashed much



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more jobs than they needed to cut production. While businesses have remained cost conscious, there is less and less room left to further improve productivity, which implies that rising production levels now have to be accompanied by rising employment. Second, businesses believe that the recovery is for real. As tail risks for a hard landing in China or a deepening of the eurozone crisis have clearly faded, the prospects for faster and sustainable growth not only in the U.S., but also in Europe and emerging markets have brightened. And with companies reacting to this outlook by increasing their work force, they are doing their part to fulfill these expectations. That is what we call a self-sustaining recovery. ■

Of Patience and Persistence

The GACCs' and RGIT's Annual Economic Forum 2013

By Jasmin Welter and Josiah Highmark, GACCoM

"Germany continues to be a stability anchor in the turbulent sea that is Europe."
– Dr. Volker Treier



Dr. Volker Treier, Deputy CEO and Managing Director of International Economic Affairs at the Association of German Chambers of Industry and Commerce (DIHK)

Transatlantic business leaders came together in Chicago for the GACCs' and RGIT's 8th Annual Economic Forum on January 31, also kicking off the 50th Anniversary celebration of the German American Chamber of Commerce of the Midwest in 2013. Highly anticipated by the German-American business community for its micro- and macro-economic outlook, the Economic Forum featured keynote speaker Dr. Volker Treier, Deputy CEO and Managing Director of International Economic Affairs at the Association of German Chambers of Industry and Commerce (DIHK). In a European business environment seemingly dominated by rather negative headlines, Dr. Treier spoke of the role of Germany as a "stability anchor in the turbulent sea that is Europe." In response to the unrest plaguing global markets, industries, and investors, he emphasized that "persistence and patience are key in reinvigorating confidence in the traditionally strong transatlantic trade and investment."

Economic Outlook 2013 – Transatlantic Perspectives

In his outlook for the European economy in 2013, Prof. Dr. Joachim Scheide – Head of the Forecasting Center and Research Economist at the Kiel Institute for the World Economy – stressed Germany's relative success in spite of the numerous imbalances in Europe,

hence serving as a motor for the entire continent's economic standing. Germany keeps its status as "champion of growth in the EU," as the country still profits from positive effects of its labor market reforms, thus avoiding the high unemployment rates of other European countries such as Spain.

Even though Germany remains a global leader in export, Prof. Scheide lowered expectations of considerable growth in the medium term. Furthermore, the renowned economist, whose institute was recently ranked 4th among global economic think tanks, pointed out that government action and investment-friendly policies are needed to spur the economy on both sides of the Atlantic.

From an American perspective, Adolfo Laurenti – Deputy Chief Economist at Mesirow Financial – unveiled his thoughts on the "unsustainable boom" that has characterized global economies in recent decades, creating various bubbles that inevitably collapsed. The inflated boom trend distorted the public's perception of the economic well-being, resulting in overwhelming private and government debt. According to Laurenti's outlook, the current rebalancing toward a 'normal' status quo, which can only be understood by taking into account the disproportionate dynamics of the

years leading up to the financial crisis, is a healthy development for a more sustainable level of growth. His evaluation gave reason to believe that there are actually many long-ignored “inconvenient truths” when it comes to the status of our global society in the 21st century, including the realization that the booming growth rates of the 1990s and early 2000s were the exception rather than the rule.

Business Panel Shows Moderate Optimism

The economic outlooks of these internationally-respected economists were followed by an industry panel giving voice to companies’ perceptions of the 2013 business environ-

ment. Moderated by journalist Michael Backfisch, the panel discussed the predominant issues for transatlantic business as identified by GACCs’ and RGIT’s German American Business Outlook 2013. According to German subsidiaries in the U.S., addressing federal and state fiscal and tax concerns along with investing in vocational training are key issues for improving the overall economy. These topics were among those discussed by the panel, which included Dr. Walter Maisel, President and CEO of the Tier 1 Automotive Supplier Kostal North America, as well as Michael Traub, President and CEO of BSH Home Appliances Corporation (BSH Bosch und Siemens Hausgeräte GmbH). Both



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The latest think tank ranking published by the University of Pennsylvania ranks the Kiel Institute number 4 worldwide among think tanks for international economic policy. The report ranks the German institute even higher than such renowned U.S. think tanks as the RAND Corporation or the Heritage Foundation. For the Kiel Institute, which has improved its position in the ranking for the second consecutive year, this is a strong confirmation of being at the forefront of international research.



business executives expressed an even more optimistic view for the U.S. economy than the relatively positive outlook presented by the economists. Particularly as consumers are regaining confidence, business keeps growing in the automotive as well as in the home appliances industry.

Addressing Skilled Workforce Issues

Regarding their own investment in the U.S. market, however, both executives expressed some concern about the availability of a skilled workforce. In an attempt to address this issue, Kostal has worked with other Michigan companies, the State of Michigan, and community colleges to develop an apprenticeship program similar to Germany's dual vocational training system. Keynote speaker Dr. Treier spoke on the issue of skilled workforce from the perspective of the DIHK, declaring that German companies in the U.S. could take a leading role in this initiative, building a model that other companies and educational institutions will want to replicate across the country.

Strengthening Europe and Transatlantic Trade

In conclusion, all panelists once again underlined their confidence in transatlantic trade and investment: "German companies abroad have been and will be success stories of international engagement, as they continue to be highly competitive on a global scale," stated Dr. Treier with regard to the recently released "Going International" survey by the DIHK. According to Adolfo Laurenti, it is crucial to master the issue of national debt, as deficit control and economic growth go hand-in-hand. The negotiation of a comprehensive trade agreement would be extraordinarily beneficial in this process. While support for this initiative is visible on the horizon, the path to an actual agreement is still long, as is the route to complete economic recovery: The panelists agreed that while business growth is discernible on a corporate level, national unemployment rates and GDP will be less likely to significantly improve in the short run. This is also true for the future of the Eurozone as there is cause for optimism from both political and economic points of

view. Mario Draghi, President of the European Central Bank (ECB), made a similar point in a speech at the New Year's Reception of the Frankfurt Chamber of Commerce and Industry: "Due to resolute actions by euro area governments and European institutions, the year 2012 turned out quite differently than predicted. The darkest clouds over the euro area subsided" (www.ecb.int). This is a very positive sign for Germany – and, ultimately, transatlantic business relations. ■



The Annual Economic Forum

Organized each January by the GACCs and RGIT, the Economic Forum has become a true institution for economists and executives invested in transatlantic business ever since its debut in 2006. Top economists from leading institutions present their visions for the U.S. and European economies from a macroeconomic perspective, while a panel of business leaders joins them in elaborating on the microeconomic environment of the year ahead. The Economic Forum, despite centering on the transatlantic business environment, is an event of truly global relevance due to the size and importance of the EU and U.S. markets. Every year, more than 200 executives make use of this exclusive opportunity to get in-depth insights from established business leaders across various industries and prepare their company for a successful business year 2013.



Participants at the Economic Forum 2013

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Anything but Dirty – 21st Century Manufacturing Jobs

Largest Catalyst Regeneration Plant in the World

Operated by STEAG in North Carolina

STEAG Energy Services LLC is the North American subsidiary of STEAG GmbH, Germany's fifth largest power generator. Since 1992, STEAG services the power industry with extensive expertise in power plant operation and system integration. It focuses on combustion systems and environmental solutions such as a state-of-the-art SCR catalyst regeneration facility with about 120 employees in Kings Mountain, NC about 30 minutes west of Charlotte, NC. Here, STEAG utilizes a patented, proprietary advanced manufacturing process to refurbish SCR catalysts (similar to catalytic converters) from power plants worldwide.

The SCR technology provides the necessary nitrogen oxide (NOx) reduction in the flue gases before the power

plants release them through their stacks to the atmosphere. NOx is generated during the combustion process and contributes significantly to the formation of smog and ground level ozone in the lower atmosphere as well as acid rain. The Environmental Protection Agency (EPA) enforces stringent NOx emission limits to protect public health and the environment by ensuring minimum ambient air quality standards by means of reducing smog and air pollution.

As a result of constituents in the coal such as ash, arsenic, phosphorus, potassium, sodium, the catalyst gradually loses its ability to remove NOx over time. To maintain the power plant's compliance with its regulatory limits concerning NOx emissions, on average about one third

of the catalysts must be exchanged approximately every 18 – 24 months during a scheduled maintenance shutdown. Until the late 1990s, the spent catalysts had to be replaced by new catalysts and disposed of mostly in landfills despite the fact that they typically had about 50% of their active NOx reducing capability left. This was not only wasteful but also very costly. Regenerating a catalyst costs less than half of a new catalyst and conserves precious resources while offering the same performance as a new catalyst.

Therefore, STEAG, who owns and operates more than 35 mostly coal-fired power plants in Europe, Asia and South America, started developing a regeneration process in the mid 1990s, which allows the



STEAG's catalyst regeneration plant offers two production lines for the refurbishment of power plant catalytic converters to provide significant cost savings to its customers and save precious resources.



reuse of spent SCR catalysts. This process initially helped STEAG's power plants to save costs by avoiding buying new catalysts at the original frequency and reducing the land-filling of spent catalysts.

Today, spent catalysts from around the world are sent to STEAG's state-of-the-art regeneration facility, which is currently the largest and most modern in the world, in Kings Mountain, NC for refurbishment. This specialized niche market has grown fast in the last few years allowing STEAG to double its facility's capacity a year ahead of its original schedule. STEAG's facility is truly high-tech, in which the catalyst is refurbished by undergoing a series of tightly controlled chemical process steps.

Innovation and highly skilled chemical workers are what makes this operation successful and well positioned for today's and future market conditions. STEAG is not only devoted to reducing emissions for its own and its

customer's power plants, but it is also committed to research and development and continued education. With that in mind, STEAG helps to develop the Charlotte region as the "U.S. Energy Hub" by supporting regional organizations like E4 Carolinas, Inc., the CEO Roundtable of Carolinas' Advanced Manufacturing Companies, and the University of North Carolina, Charlotte's Energy Production and Infrastructure Center (EPIC).

This summer, STEAG is planning to implement an apprenticeship program in conjunction with a local community college to overcome the skills gap faced by the manufacturing sector. The concept of Apprenticeship 2000 will serve as a blue print for STEAG as it has a strong following in and around the Charlotte region with companies such as Pfaff Molds, Siemens Energy and Blum to name a few. ■

Contact info:

>> www.steag.us



"STEAG is committed to the Charlotte region and supports its growth as the U.S. Energy Hub."

- Hans Hartenstein, President



STEAG regenerates any power plant catalyst - here, before and after images of plate, corrugated and honeycomb catalyst respectively.

STEAG built in the last few year's one of the most efficient and environmentally friendly coal-fired plants in the world - Walsum 10. It will power approx. 400,000 households starting Fall 2013



More Cooperation Leads to Growth in Europe and the USA

RGIT holds Business Breakfast with DIHK Deputy CEO Dr. Volker Treier

By Dr. Bettina Wurster, Deputy Representative, RGIT Washington

Germany and the United States are not in a competition. At the RGIT Business Breakfast on January 29th in Washington, DC, the President of the Peterson Institute for International Economics, Dr. Adam Posen, said that “the better Germany does, the better the U.S. does, the better we do together.” The topic of the morning’s event “Creating Value after an Economic Downturn: New Perspectives for Doing Business in Germany, Europe and the U.S.” was discussed by Dr. Posen as well as Dr. Volker Treier, DIHK Deputy CEO; Prof. Dan Hamilton, Director of the Center for Transatlantic Relations at the Johns Hopkins University, and Hiddo Houben, head of the trade department at the Washington EU Delegation. RGIT’s President Dr. Thomas Zielke moderated the panel.

Citing articles by *The Economist*, Treier explained how the perception of Germany’s economy has shifted over the years: the “sick man of Europe” in 2005 became “Europe’s engine” in 2010. In 2012, commentators were asking what Germany’s economic model could offer the world. “The positive mood in German industry is back,” said Treier. He cited three reasons for the positivity: structural improvements stemming from the “Agenda 2010” measures of the Schroeder era in the early 2000s, the internationalization process as well as the single market within the European Union. Treier stated that most German companies have always maintained their headquarters in Germany and shifted only parts of their manufacturing to other EU member states to reduce costs. Moreover, Germany has an export quota of 50% and within this rate is not dependent on one market only. Treier also said, the EU was on the right track with its improved economic coordination.

The two Americans on the panel were not equally optimistic: Posen predicted a weak year for Germany and Europe as the reforms might not pay off immediately. Hamilton pointed out the deep linkages between trade and investment and claimed that Europe had to

From left: Dr. Thomas Zielke, Dr. Adam Posen, Dr. Volker Treier, Prof. Dan Hamilton, Hiddo Houben



Dr. Thomas Zielke with former Congressman Toby Roth (R-WI) after the discussion

reposition itself concerning investment flows. However, he also conceded that Americans always see the problems in Europe whereas the Europeans see the challenges in the USA. Both economies should reposition themselves and work together.

With regard to a possible EU-U.S. trade agreement, Hiddo Houben explained that both parties were major champions on the multilateral field, and that the outcomes had to move beyond existing agreements and tariffs. According to Houben, areas such as chemicals and pharmaceuticals have been identified most promisingly for trade and investments. Some regulatory issues are going to be easier and could therefore be solved quicker. Negotiations should follow the idea of a “living agreement.” ■



Eric Spiegel, Siemens: “The Skills Gap is real!”

Business Representatives and Policy Makers Discuss Vocational Training

By Dr. Bettina Wurster, Deputy Representative, RGIT Washington

Representatives from German companies in the U.S., the U.S. government, the German chamber organization, and academia met on January 29th at the residence of the German Ambassador, Dr. Peter Ammon, in Washington, DC. Their discussion on “The Skills Initiative: The Crucial Role of Workforce Development for Jobs and Growth in the United States and Germany” focused on the advantages of the German dual training system and the need for a comparable system in the United States. More and more subsidiaries of German companies are currently beginning their own vocational training programs in cooperation with local community colleges in order to meet labor demands.

The keynote speech was delivered by acting Secretary of Commerce, Dr. Rebecca Blank. She emphasized that the United States would like to learn from the ideas and practices that flourish in Germany, and she pledged support in this endeavor. Dr. Volker Treier, Deputy CEO and Managing Director of the International Affairs department at the Association of German Chambers of Industry and Commerce (DIHK), explained the advantages of the vocational training system. Besides the low youth unemployment rate of around 8% the completion of a dual training stands for a far greater likelihood of a successful career placement. Treier then referred to the role of the regional

chambers of industry and commerce (IHKs) in Germany who supervise the training within the companies, and provide the examinations for trainees as well as the final examinations for the trainees. He recognized the work of the chamber organization and the companies as a fruitful public-private partnership.

Eric Spiegel, President and CEO of Siemens Corp., claimed that the skills gap was real and that the Business Roundtable, an association of CEOs of leading U.S. companies, had identified 100,000 open positions in 200 companies. With the manufacturing renaissance in the U.S. this number is going to get worse, according to Spiegel. He pledged to create an environment which rewards technical training skills. The CEO and General Manager of Zentis Food Solutions, Norbert Weichele, added that at their

Indiana plant the skills issue has been the key challenge since they opened up the plant 6 years ago – despite a statewide unemployment rate of 8 to 10%. Weichele himself completed a bank apprenticeship and never regretted the hands-on experience and the down-to-earth education he gained there. Dr. Tony Zeiss, President of Central Piedmont Community College in Charlotte, NC, expanded on his school’s cooperation with Siemens and the IHK in Karlsruhe, Germany. He had adopted the German model 15 years ago and now strives to become the nation’s leader in workforce development. Professor Robert Lerman of the American University indicated that society must shift its mentality towards vocational training in order for it to be more attractive. Young people must be able to show pride in vocational skills, and not feel pressured to pursue the university track. ■



From left: Dr. Volker Treier (DIHK), Eric Spiegel (Siemens), Acting Secretary of Commerce Dr. Rebecca Blank, Ambassador Dr. Peter Ammon (© Z. Garcia for Germany.info)



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Koch Media:

Excited About Further Expansion in U.S. Games Market

Koch Media, a leading, independent producer and marketer of digital entertainment products in Europe and North America, has secured the intellectual property rights for two of the most popular and successful THQ franchises, Metro and Saints Row, as well as Illinois-based development studio, Volition, as THQ continues to liquidate its assets in closed auctions.

Deep Silver, Koch Media's international publishing powerhouse,

will lead all further development and marketing on the Saints Row and Metro franchises, each of which boast millions of units sold worldwide and vast, dedicated fan bases.

With more than 200 games on notable platforms globally and franchises like Dead Island, Deep Silver is now leading these brands into the next generation of interactive entertainment for fans around the world.

About Koch Media

Based in Planegg near Munich the Koch Media group's business areas include distribution of media products, including movies, and software products, and video games publishing under the Deep Silver label. Sales, marketing and distribution cover Europe with subsidiaries in England, France, Spain, Italy, Switzerland, Austria, the Nordic regions, Benelux and the USA. ■

KOCH MEDIA



Koch Media's Headquarter in Planegg near Munich

Koch Media Timeline

1996: Entrance into the games market.

2007: To date, 1 million copies of the successful series The King of Queens have been sold on DVD and Blu-ray in the German-speaking territory.

2008: In April, Koch Media opens the North American branch Deep Silver, Inc.

2009: The Koch Media group's turnover surpasses 300 million euros for the first time.

2011: Under its publishing label Deep Silver Koch Media scores its first number 1 hit with the game Dead Island.

2013: Koch Media purchases Saints Row developer Volition (including the rights to the Saints Row franchise) as well as the publishing rights to the Metro franchise under its publishing label Deep Silver.

"The Gaming Industry is still Driven by the U.S. Market"

Interview with Dr. Klemens Kundratitz,
MD of Koch Media Group, Munich

By Nicola Michels, GACC New York



Game character "Purna" from
"Dead Island Riptide", sequel to the
worldwide bestseller "Dead Island"

GAT: Dr. Kundratitz, it's almost been 5 years since you established your first subsidiary in North America - Deep Silver, Inc. in California. What triggered your decision back then?

Dr. Klemens Kundratitz (KK):

To enter the largest games market in the world with our own subsidiary was an important step for the growth of the company Koch Media and of its games label Deep Silver. While you can use distributors to bring your products to the market for you, one will never fully understand the laws and characteristics if you are not present yourself. And that is actually what makes Koch Media special around the world: We have local experts who know their relevant markets by heart.

Also, our presence in America enables us to market our products with far more efficiency on a global scale, with direct market access. Finally, it has allowed us to establish contacts with developers and business partners in North America much more easily.

GAT: The North American market seems to offer fertile ground for the expansion of your group. Your recent purchases of Illinois-based Volition, Inc. proves that point. What do you find here in the U.S. that is different from other markets?



Dr. Klemens Kundratitz

Dr. Klemens Kundratitz is Managing Director of Koch Media Holding as well as Koch Media GmbH in Germany and Austria. Furthermore he is President of Koch Media srl in Italy, Chairman of the Swiss Koch Media AG, non-executive Director of Koch Media Ltd. in England, Managing Director of Koch Media S.L. in Spain and CEO of Deep Silver, Inc. in the U.S.

KK: The western gaming industry is still very much driven by the U.S. market. Similar to movies from Hollywood, these titles represent a large portion of the worldwide business volume. There are certainly interesting titles that originate from the European or Asian territories,

KOCH MEDIA

but if you want to play a global role as a games publisher, you have to seriously take the US market into account.

Volition, the development studio that we recently acquired in a closed auction, has a proven track record of establishing brands that are well-respected and revered worldwide, and that will help us strengthen our position as global games publisher even further.

GAT: Where do you see the games industry in 10 years from now, do you think there are more significant technological innovations on the horizon and what is your vision for Koch Media?

KK: The games industry is one of the fastest-moving industries in existence, and a technology driver. Who would have thought a few years ago that retail business would slow down and everyone would simply download (and pay) via the Internet; that mobile gaming would move from portable consoles to mobile phones? So yes, there will be significant changes, but "10 years" is a long time in a fast-moving industry like ours, therefore it's difficult to give a qualified forecast here.

Koch Media as a company is positioned for the future as a fully-integrated, independent media company. What we mean by this is that Koch Media has multiple core pillars that constitute our business - besides games publishing, our second core pillar is the film business. The ever-increasing convergence of different types of media places Koch Media in an ideal position for the future, and will allow us to utilize synergies between the different disciplines.

GAT: Thank you Dr. Kundratitz, for this interview. ■



Game character "Captain Steelbeard" from "Risen 2", published in 2012

Housing Recovery is Gaining Strength

Article by Martin Wiekert, Germany Trade & Invest

In 2012, residential construction in the U.S. saw a substantial turnaround. According to a report by the U.S. Department of Housing and Urban Development, issued building permits increased by 30%, housing starts by 28% and housing completions by 11% compared to the previous year. However, with a total of 780,000 construction starts, the level of activity was still significantly below the boom year of 2005, when more than 2 million new units were constructed. The housing market is seen as a crucial factor for the economic development in the U.S. The market's collapse in 2006 and 2007 was one of the main triggers for the worldwide economic and financial crisis.

The majority of market analysts remains optimistic when it comes to the future of residential construction in the U.S. The average of analysts' forecasts, compiled in the Blue Chip Economic Indicators of January 2013, is currently at 950,000 housing starts (+22%) for the current year and at 1.16 million starts for 2014. For 2013, most experts expect a double-digit increase in spending in this sector.

However, it has to be kept in mind that the market still is on a very low base level. In 2012, spending for residential construction only reached 45% of the 2005 value – construction starts came to 38%.

Currently, the market for multi-family units shows a significantly better performance than the construction of single-family homes. Construction starts for such big projects grew again by 37% in 2012, after an increase of 54% in the previous year. The current boom in this sector can primarily be attributed to an increased need in metropolitan areas. An improving rental market in many big cities combined with an active demand for condominiums make such new construction projects very attractive.

From a regional point of view, the increase in construction starts is spread evenly across the U.S. Only the Northeast is slightly behind other parts of the nation in view of growth rates. A slight, positive turnaround can currently also be seen on the market for existing homes. According to a press release by the National Association of

Realtors (NAR), sales of existing homes and condos grew by 9.2% to 4.65 million units in 2012. This is the highest level since 2007 and at the same time the biggest increase since 2004.

Simultaneously, the inventory of existing homes available for sale decreased dramatically. According to NAR, it could all be sold within 4.4 months should the sales pace of December 2012 continue (December 2011: 6.4 months). Hence, the market for existing homes available for sale is as dried up as it was during the housing boom's peak time in May 2005, when the inventory only lasted 4.3 months. However, all of this hides the fact that the market is still struggling with substantial structural problems.

Currently, besides the housing units that are officially for sale, there is also a large "shadow" inventory that has not made it onto any sales lists yet. Said inventory is likely to hinder the market expansion for some time. The potential inventory is mostly made up of units that are either owned by banks or that are now the 30 de facto property of





GTAI INDUSTRY TALK

Detailed industry reports, written by the U.S. correspondents of German Trade and Invest (GTAI), the official German foreign trade and inward investment agency.



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banks, assumed from insolvent borrowers. According to an estimate given by the information provider CoreLogic, still some 10.8 million mortgage loans or 22% of the total U.S. volume were “under water” mid-2012 – meaning the outstanding debt was higher than the assessed value of the respective property.

It is expected that this inventory will be sold little by little or will go into foreclosure auctions. However, many owners are still hesitant to take such measures since this could mean a significant loss given the

current price level. On the other hand, the development of house prices gives hope that the stress factors will slowly become less important. In December 2012, the median sales price for existing housing units was 11.5% above the price of December 2011; the price for new units even exceeded this comparable price by 13.9%. The widely noticed Case-Shiller Index, showing the development of house prices in the 20 most important U.S. cities, has been in an upward swing again since the beginning of 2012. In October 2012, the index was 4.3% above the 2011 level. Positive developments are also noticed when it comes to vacancies, while the average rents eased in the course of the year 2012.

Conditions for a further recovery of the U.S. housing market do exist. The economy follows its moderate uptrend while the unemployment rate is slowly being reduced. Important indicators in regards to consumption and consumer confidence proved robust despite discussions about the imminent fiscal cliff.

The market receives great support from the expansionary monetary policy of the Federal Reserve. The Fed has already made sure that interest rates for mortgage loans are now on a record low. It was only in September 2012 that the Fed launched the bond purchase program Quantitative Easing 3 in order to further reduce (construction) interest rates by buying mortgage-backed securities. The U.S. government is also trying hard to advance the sector's recovery. Among other things, it finances comprehensive measures in line with its Making Home Affordable Program to restructure mortgage loans in distress.

Residential construction is dear to the heart of the U.S. economic policy, since not only businesses in the construction sector but also a multitude of other economic sectors benefit from its upswing. Especially important for the U.S. economy is the recovery of house prices, since their collapse during the financial crisis led to a bitter loss of wealth for many American citizens. ■



WASHINGTON
★ UPDATE ★

NEWS FROM INSIDE THE BELTWAY

President Obama's Second Term

Which Opportunities Does it Hold for German Companies?

By Lars Hennig and Dr. Bettina Wurster, RGIT

Barack Obama has not been to Berlin as President of the United States so far. And he sees the American pivot to Asia as an opportunity to dramatically increase U.S. exports, as well as to increase U.S. leadership in the fastest growing part of the world. Does this mean that the United States will leave Europe and especially Germany, its fifth most important trading partner, behind? Certainly not! German companies will play a major role in the U.S. economy in the future, for multiple reasons.

German goods are in high demand in the U.S.

In the first 9 months of 2012, German exports to the United States increased by nearly 21 percent to 65 billion euros. According to an OECD prognosis, the American economy will grow by 2 percent in 2013. In 2014, growth is expected to increase to 2.8 percent. This economic upswing of the world's largest economy benefits German businesses, too. With negotiations on a transatlantic trade agreement between the EU and the U.S. to commence soon, the elimination and reduction of tariffs and other trade barriers are to be expected in the long run.

German companies are technology leaders in renewables

In his second term, tackling climate change is on the President's agenda. In his Inaugural Address he stated: "The path towards sustainable energy sources will be long and sometimes difficult. But America cannot resist this transition; we must lead it." In the State of the Union Address he urged Congress to get together and pursue a bipartisan, market-based solution to climate change.

Regarding renewable energies, German companies can contribute successfully with their know-how and their primary and final products. In 2010, the market share of German suppliers in the American wind energy sector was already at 60 percent.

The importance of wind and solar energy is expected to increase. 2.4 percent of the total energy supply in the U.S. came from wind energy in 2011. With projects already approved or underway, this share will likely increase to 18 percent – mainly through off-shore wind parks on America's coasts. This means there is a huge demand for the expansion of power supply networks as well.

U.S. firms rely on German transport equipment

Another major topic of President Obama's second term agenda will be the further development of infrastructure. "A modern economy requires railroads and highways to speed travel and commerce", Obama said in his inaugural speech. The "Fix-It-First" program he outlined in the State of the Union Address is not only designed to create jobs in infrastructure, but also to improve opportunities for new investment by foreign companies. A legislative package passed before the election set infrastructure spending at \$500 billion by 2016, of which \$100 billion goes towards public transport and \$50 billion into rail networks. German businesses are competitive in both markets: Over half of the U.S. imports from Germany in 2011 were machinery and transport equipment, in total \$56.3 billion. German subsidiaries in the transport equipment sector employ 52,700 people.

Germany is a leader in e-mobility

There are opportunities for German car manufacturers, especially for green cars, too. The Congressional Budget Office estimates that federal incentives for manufacturing and purchasing both electric and fuel efficient cars will total \$7.5 billion

RGIT REPRESENTATIVE of German Industry + Trade

by 2019. German car manufacturers are already well integrated in the U.S. market. Their market share of 8.8 percent and an increase in sales by 21 percent to 1.27 million sold cars made 2012 the most successful year for German car manufacturers in the United States. In comparison, the total car market grew by 13 percent in 2012.

German vocational education is a model

President Obama praised German vocational education as a model again in this year's State of the Union Address. In last year's speech he had already referred to Siemens as an example of an excellent apprenticeship provider. The interest in German education, especially in vocational education for the manufacturing sector, may lead to opportunities for German education and training providers.

Outlook

German businesses' expertise will be sought after in the "traditional" fields as well as in new arrays during President Obama's second term. They can remain as optimistic as they were in the last German American Business Outlook as of December 2012 when 95 percent of the companies claimed to expect growth for their firm in 2013. ■

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Connecticut:

A Symbol of Ingenuity and Inventiveness

By Ning Wang, GACC New York

"By becoming a leader in bioscience, Connecticut can again be at the forefront of an economic renaissance."

— Governor Dannel P. Malloy

These qualities have been attributed not only to the Connecticut Yankee but also matched by production skills since the earliest days. Starting in the colonial times, Connecticut has been predominantly a manufacturing state and world leader in industrial development.

Tucked in the northeastern region of the United States, the state Connecticut is New England's second smallest and southernmost one in New England, bordered by Rhode Island in the east, Massachusetts to the north and New York state in the west and south. The state is said to be named after the Connecticut River, its capital is Hartford. Much of southern and western parts of the state are included in the New York City-combined statistical area, also known as the Tri-State area.

Its earliest settlers were Dutch, while the first major settlements were established in the 1630s by England as the Connecticut River and the Thames River gave the state a strong maritime tradition that continues until today.

Wealthy state

The main other traditional industry is financial services, like the insurance industry (106 companies alone based

in CT) and hedge funds in Fairfield County. The census in 2010 showed Connecticut inhabitants holding the highest per capita income and median household income in the United States. However, a great disparity in incomes has Connecticut cities ranking among the nation's poorest and most dangerous: Latest BEA numbers show that while for Hartford, the combined personal income in 2011 was \$48,291,117 – only a stone's throw away, people in Windham earned merely a total of \$4,624,539.

Since 1991, when taxes on employment income and investment income were equalized to a maximum rate of 4%, the area around Greenwich, CT has become the preferred location for a large number of America's biggest hedge fund companies to build their headquarters in.

Traditional trade continues to thrive

The state's produce includes nursery stock, eggs, shellfish, dairy products, cattle and tobacco. Due to limited land, the people of Connecticut turned quickly to manufacturing. The state's industrial output includes transportation equipment, especially helicopters, aircraft parts, and nuclear submarines. Chemical and pharmaceutical products as well as scientific instruments are fabricated as there is a long historical tradition of the state being the center of gun manufacturing.

CONNECTICUT

Capital: Hartford

Population: 3,590,347

Size: 5,543 sq mi

Today, the Connecticut Department of Economic and Community Development (DECD) has an industry-specific approach as Connecticut has strong industries, such as insurance and financial services, aerospace, advanced

manufacturing, bioscience, alternative energy and other green technologies, and digital media. And fostering a culture of innovation in these key sectors is certainly crucial to the state's long-term economic prosperity.

Insurance and financial services

With some of the top insurance and financial services companies here, Connecticut's financial services industry is well positioned to rebound from the economic downturn. For example, CIGNA, the first company to take part in Governor Malloy's First Five program, announced last year that Bloomfield would be its new corporate home. Greater Hartford, still the insurance capital, is already home to Aetna's headquarters and is a center of operations for Amsterdam-based ING Group. RBS and UBS are based in Fairfield

County, which also happens to be the epicenter of the hedge fund industry.

Aerospace and advanced manufacturing

Aerospace and advanced manufacturing are both well established and growing sectors in Connecticut. Industry, government and academia are working together to promote the more than 1,000 companies in the supply chain that support the industry leaders here in the state, such as United Technologies, Sikorsky, Pratt & Whitney and Kaman. This type of high-tech manufacturing requires a highly skilled and educated workforce that Connecticut can provide.

Bioscience

Bioscience presents a tremendous opportunity for expansion. Alexion Pharmaceuticals sees the potential: It



Connecticut's State Flag



View from across the Connecticut River – The Travelers Tower & Convention Center in the City of Hartford.

announced New Haven will be the site for its new global headquarters in 2015. Other international companies, like Germany's Boehringer Ingelheim, continue to grow, while Pfizer, U.S. Surgical and Bristol-Meyers Squibb all maintain a significant presence in the state. This sector ties into some of the world's finest universities that call Connecticut home, such as Yale and the University of Connecticut.

Green technologies

Connecticut's continued leadership in clean and renewable energy sources

places it in the enviable position of being at the center of job growth in the new energy economy. Development of a robust, clean, advanced energy sector presents tremendous economic growth opportunities.

Film and digital media

Attracting film, television and digital media production companies here in Connecticut is the job of the Office of Film, Television & Digital Media housed in DECD. It's a full-service film office and is the primary contact for companies and

individuals involved in filming and production. By administering three tax credit programs and other resources, it acts as a clearinghouse for information, economic incentives and services that make Connecticut the ideal location for production. Staff in the office also assists film, television and digital media companies with financial assistance packages – including loans, grants, and job expansion tax credits – that are specifically tailored to facilitate relocation to Connecticut and for the growth and

German Companies in Connecticut

Arburg, Inc.	Newington	Lacey Manufacturing Comp., Inc.	Bridgeport
Barden Corporation	Danbury	Lavatec, Incorporated	Naugatuck
Bausch & Stroebel Machine Co., Inc.	North Branford	Mettler Packaging LLC	Southington
Beiersdorf, Inc.	Wilton	mk North America, Inc.	Bloomfield
Beiersdorf, Inc.	Wilton	MTU Aero Engines North America Inc.	Rocky Hill
Bielomatik Jagenberg, Inc.	Windsor	PERO Corporation	Windsor
Binding Brauerei Usa, Inc.	Norwalk	PTR-Precision Technologies, Inc.	Enfield
Boehringer Ingelheim Corporation	Ridgefield	Roto Frank Of America, Inc.	Chester
Boehringer Ingelheim Pharmaceuticals, Inc.	Ridgefield	SAP America, Inc. – Dever	Greenwood Village
BYK Chemie Usa, Inc.	Wallingford	SAP America, Inc. – Norwalk	Norwalk
Carl Brandt, Inc.	Fairfield	Schaeffler Group Usa, Inc.	Danbury
DB Schenker – East Granby	East Granby	Schüco Usa L.P.	Newington
Deutsche Bank Alex.Brown	Greenwich	Seidel, Inc.	Waterbury
Deutsche Genossenschafts-Hypothekenbank AG	Stamford	Sennheiser Electronic Corporation	Old Lyme
Dimension-Polyant, Inc.	Putnam	SHW Incorporated	Torrington
ebm-papst Inc.	Farmington	Singulus Technologies	Windsor
Eschenbach Optik Of America, Inc.	Danbury	SL Financial Services	Westport
Evonik Cyro LLC	Wallingford	SND Electronics, LLC.	Sandy Hook
FAG Bearings Corporation	Danbury	The Miller Company	Meriden
FCT Electronics, LLP	Torrington	Theis Precision Steel Corp.	Bristol
Fuchs Lubricants Co. – Northeast Division	East Haven	Thyssenkrupp Materials Na, Inc., Copper And Brass Sales Division	Wallingford
GBR Systems Corporation	Chester	Treif Usa, Inc.	Shelton
Heitkamp Incorporated	Watertown	Trumpf Inc.	Farmington
Henkel Corporation	Rocky Hill	Turner	Milford
Inside Track Publishing Corp.	Ridgefield	TÜV Rheinland North America Holding	Boston
Integralis, Inc.	Bloomfield	Wafios Machinery Corp.	Branford
Kampf Machinery Corporation	Windsor	Wusthof-Trident Of America, Inc.	Norwalk
Keller USA, Inc.	Naugatuck		
Kemper Bakery Systems, Inc.	Shelton		
KIP, Inc.	Farmington		
Kuehne + Nagel, Inc.	Windsor Locks		

development of existing Connecticut companies.

Germany in Connecticut

German firms have established their entities in Connecticut because of key factors like lower cost of production, qualified and flexible work force and logistics. Automotive supplier Kemmerich is the second German-owned company to invest more than \$12 million in Murray in the last four months. Especially automotive component firms are strategically positioned to supply General Motors and Ford in the Midwest, as well as Mercedes, BMW and Volkswagen in the South. ■

Source: DECD Connecticut, Annual Report

Top 5 CT Export by Countries (in \$ millions)

	2009	2010
1 France	2,216	2,225
2 Canada	1,444	1,587
3 Germany	1,306	1,268
4 China	752	1,031
5 Mexico	757	983
Total all Countries	13,978	16,032

Top 5 CT Export by Industries (in \$ millions)

	2010	2011
1 Transportation Equipment	627	388
2 Machinery, Except Electrical	88	140
3 Computer & Electronic Products	94	97
4 Agricultural Products	69	193
5 Chemicals	58	72
Total all Commodities	1,203	1,185

Source: www.wisertrade.org,
data from U.S. Census Bureau, Foreign Trade Division



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www.comerica.com

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www.dimetis.com

Dirk Hilkmann State Farm Agency

www.dirk4u.com

Eppele Printing Inks, Inc.

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www.lskunststofftechnik.com

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www.montage-services.com

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www.paulhastings.com

PNC

www.pnc.com

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www.refko.de

Reynolds, Frizzell, Black, Doyle, Allen & Oldham L.L.P.

www.reynoldsfrizzell.com

Rollac Shutter of Texas, Inc.

www.rollac.com

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www.sunselex.com

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www.tvaed.com

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www.transwestern.net

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VI Food and Beverage Consult

www.vifoodandbeverageconsult.com

Volkswagen Group of America, Inc. – Electronics Research Laboratory

www.werl.com

Von Hagen North America, LLC

www.vonhagen.net

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Yadex International GmbH

Transfer Pricing:

A Critical Tax Management Tool for German Multinationals with U.S. Affiliates¹

By Guy Sanschagrin, WTP Advisors United States and Tobias Isensee, WTP Advisors (Deutschland) GmbH

German multinationals operating with United States affiliates increasingly must incorporate transfer pricing to effectively manage their global businesses and maximize shareholder value. Transfer pricing is the price paid in transactions that take place among related party affiliates. These intercompany transactions typically take the form of a sale of goods, a license or sale of intangible property (e.g., technology, know-how, brands), the provision of

services or intercompany financing.

Transfer pricing, in the context of international tax, allocates income and expense among members of a controlled group in cross-border transactions. This area has been subject to increasing controversy as governments seek to protect their tax base from erosion. Under the OECD Transfer Pricing Guidelines, the Arm's Length Principle (ALP) dictates "transactions should be valued as if

they had been carried out between unrelated parties, each acting in his own best interest." Although most countries have adopted it, the ALP is subject to interpretation by national governments. These interpretations often yield significant controversy.

German multinationals operating in the U.S. must closely monitor their transfer pricing compliance for several reasons. First, the Internal Revenue Service (IRS) considers transfer pricing enforcement a key revenue generating area. In 2004, the IRS issued a Transfer Pricing Compliance Directive. The Directive instructs IRS agents to issue a Transfer Pricing Information Data Request (IDR) at each audit's inception.² German multinationals unable to provide such documentation may be subject to transfer pricing disputes with the IRS. Transfer pricing disputes with the IRS may lead to transfer pricing adjustments (potentially resulting in double taxation) and non-deductible transfer pricing penalties and interest.

Second, the U.S. levies a high corporate tax rate. When Japan



Guy Sanschagrin

Guy Sanschagrin is a Managing Director at WTP Advisors. Prior to WTP, Guy was a Tax Director in PwC's global transfer pricing and valuation practice. He has over fifteen years of experience providing transfer pricing, valuation, economics consulting and business process improvement services. Guy's experience includes supply

chain, risk assessment, transfer pricing design, cost sharing, exit charge/intangibles valuation and OECD and local country/U.S. documentation. Guy completed a three-year assignment as the national leader of a Big Four firm's Belgium transfer pricing practice. Early in his career, Guy was an industrial engineer performing and leading dozens of business process improvement initiatives.

Guy received his MBA in Finance and International Business from the University of Chicago Booth School Of Business and his BS in Industrial Engineering from Northeastern University in Boston. Guy is a CPA (Minnesota) and a member of the AICPA. Guy's most recent published article "Inter-company Services and Intangibles" appeared in the Transfer Pricing International Journal in April 2012.

Guy currently is the president of the twin cities chapter of the American Society of Appraisers (ASA) and serves on the board of directors and finance committee of the Minnesota International Center (MIC).

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reduced its corporate tax rate on business income between national and local taxes from 39.8 percent to 36.8 percent on April 1, 2012, the combined U.S. federal and state corporate rate of 39.2 percent became the highest in the world.³ Given this, improperly monitored U.S. transfer pricing compliance may have significant tax consequences. For example, assume a multinational's U.S. domiciled affiliate bears a U.S. effective tax rate (ETR) of 39 percent while its German parent bears a 30 percent ETR. Thus, the multinational's ETR differential between the affiliates is 9 percent. If the U.S. affiliate's recognized income exceeds the arm's length range by \$12 million, the multinational would pay \$1 million more of tax than required.⁴

How can German multinationals mitigate their potential transfer pricing risks, while efficiently minimizing their global ETRs? The first step is a functional analysis to determine the functions, risks, and assets of each legal entity along a multinational's entire supply chain. Intangible assets such as patents, trade secrets, know how, and trademarks are frequently a multinational's key profit drivers. The functional analysis will identify the legal and economic owners of a multinational's intangible asset portfolio.

Second, we characterize the multinational's affiliates as profit centers, revenues centers, or cost centers.

Profit centers typically own a multinational's non-routine intangibles and manage the consolidated entity's significant risks. Revenue centers typically perform region specific, marketing and distribution activities. Cost centers perform manufacturing and service activities, although distributors may, at times, perform after sale services activities as well.

Third, we identify comparable benchmark data and evaluate and select transfer pricing methods. U.S. transfer pricing regulations stipulate a "best method" rule. This rule requires that we select the transfer pricing method(s) that, "given pertinent facts and circumstances, provide the most reliable measures of an arm's length result".⁵

German multinationals must attend to their transfer pricing policies to manage their ETRs, especially with respect to their U.S. affiliates. Proactive transfer pricing compliance policies will service this imperative, mitigating risks associated with transfer pricing disputes, transfer pricing assessments, and double taxation, as well as potential penalties and interest. WTP has assisted many German multinationals with U.S. affiliates design, implement, and document sustainable transfer pricing policies. These companies have improved after-tax, free cash flow and increased shareholder value. ■



About Tobias Isensee

Tobias Isensee is Managing Director of WTP Advisors (Deutschland) GmbH. He is a German Chartered Tax Accountant and Chartered International Tax Specialist, and co-author of 'Compendium of the Entire Investment Law' a recognized German commentary on German investment law. Tobias is a member of the Munich board of examiners for the appointment of chartered tax accountants as well as a member of various national and international tax organizations. Prior to WTP, Tobias was for more than eight years a senior International Tax Specialist at PwC, before becoming Head of the Transfer Pricing Advisory Practice for Grant Thornton Germany. Tobias is a frequent lecturer on tax law and has authored numerous professional articles for a variety of national tax publications.

¹ The authors would like to thank Cort Coburn, Senior Consultant of WTP Advisors, for his contributions to this article.

² See: <http://www.irs.gov/Businesses/International-Businesses/Transfer-Pricing-Compliance-Directive>.

³ We note actual state corporate income tax rates range from those states that levy no corporate income tax to those whose rates approach 10%.

⁴ \$12 million x 9% = \$1.08 million net tax overpayment.

⁵ Treas. Reg. § 1.482-1(c)1.

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companies, nonprofits and SEC registrants. For example, in 2012 Accounting Today named ParenteBeard in their annual list of the top 100 firms in the United States; the Legal Intelligencer named the firm a “best firm in forensic accounting;” the Philadelphia Business Journal ranked the firm sixth for accounting firms in their annual book of lists; and A.M. Best ranked the firm 13th in property / casualty audit firms in their annual Best’s Review.

Joseph C. O’Neill, vice president of tax services, leads the firm’s New York City team as regional managing partner. As the firm’s most senior tax executive, Joe collaborates with private equity firms on fund and portfolio company tax issues. Additionally, he leads our NYC-based China desk, which provides an extensive line of services specifically tailored to clients either seeking to invest in China or China-based companies interested in expansion within the U.S. market. Joe is chairman of the Baker Tilly International federal tax committee.

German Desk

Our German desk was created in response to increasing market demands for high quality international consulting services for German companies and individuals looking to expand their presence in the

United States. Our service offerings are tailored to the Mittelstand companies as their importance to the German and global economies increases.

Headquartered in our New York City office, our German desk team is led by Kathrin Hacklander, a German national and certified German tax advisor (Steuerberaterin) who previously worked for Baker Tilly Deutschland in Hamburg. Kathrin leads a team of international tax and audit professionals, including several members with experience working in Germany and fluent in German. Working closely with Baker Tilly Deutschland GmbH, the team is equipped to serve clients in both Europe and North America.

For German companies seeking to expand into the United States, we offer expertise on key considerations, including guidance on establishing a business, acquisitions and tax services and advisory services including private letter rulings and bookkeeping and accounting services.

Our services for individuals include supporting expatriates and resident aliens, such as foreign company executives, foreign shareholders and real estate owners. We can assist with preparing Social Security applications and U.S. tax returns and

provide ongoing tax guidance.

For more information regarding ParenteBeard, visit us at ParenteBeard.com. If you are interested in learning more about the firm’s German desk services, contact Kathrin Hacklander, international tax services manager and German Desk industry specialist. ■



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Interview with Torsten Gessner

CEO of ThyssenKrupp North America

By Nicola Michels, GACC New York



Torsten Gessner,
CEO of ThyssenKrupp North America

WELCOME TO THE C-SUITE



**Introducing New C-Level Executives to the
German-American Business Community**

GAT: What role does the North American market play for ThyssenKrupp?

Torsten Gessner (TG): ThyssenKrupp North America has a significant footprint in this region. In the last fiscal year we employed more than 20,000 people in the United States, Canada, and Mexico and had sales of approximately \$11.6 billion USD.

Our companies offer products and services that range from premium carbon steel, automotive components, elevators, escalators and passenger boarding bridges to material trading, plant construction and industrial services. North America is a growth market for ThyssenKrupp with great opportunities for mid-term and long-term growth.

Over the next few years, several developments will change the region's landscape to benefit both ThyssenKrupp and our customers. For example, the availability of plentiful, low-cost energy is driving construction of energy intensive petro-chemical and fertilizer plants in the United States. In November 2012, CF Industries awarded ThyssenKrupp, through our Industrial Solutions Business Area, a EUR 1 billion project to provide engineering

and supply services for two fertilizer complexes in the U.S.

Also in the U.S., new Corporate Average Fuel Economy (CAFE) regulations will increase auto mileage to 55 mpg by 2025. This will increase demand for cars with lighter materials such as high-strength steel and more advanced automobile components like fuel efficient camshafts or steering systems.

Meanwhile, Canada and Mexico have healthy, rapidly growing economies. Canada, with the third largest proven oil reserves in the world, has more than quintupled its oil production over the past five decades. ThyssenKrupp Canada has introduced cutting edge innovations to the Canadian oil sands industry, including development of the world's largest capacity crushing plant and the first high capacity wet crushing process plant for oil sands. Plus, Mexico's middle class has boomed in the last few years and economists now point to a new middle class majority.

GAT: Last year, ThyssenKrupp established a new regional headquarters. Why?

TG: Our success lies in our engineering expertise in Material, Mechanical and Plant production and our ability to manufacture innovative products



in both a cost- and resource-efficient way. To make full use of these opportunities, we have established a regional headquarters that will play a vital role in helping our North American companies identify new markets and opportunities for growth. ThyssenKrupp's North American Regional Headquarters helps strengthen both our ability and our flexibility to leverage the resources, experience and energy of our businesses and people.

GAT: You have worked in the elevator manufacturing industry for

more than 25 years – how is that reflected in your leadership strategy?

TG: The elevator industry is a global, decentralized service industry that is built on excellent people, who are close to their local customers. In this industry I learned to think global and act local.

I passionately believe employees are the key to success in any organization. No other company can match ThyssenKrupp's breadth of expertise and engineering knowledge. Today in North America we are building a

team culture and network where each employee is able to reach their full potential. We are improving our customer focus and providing value-added solutions to meet our customer needs. By adopting these strategies we are ensuring ThyssenKrupp is more than the sum of our parts and will continue to grow and be successful. ■

Below: ThyssenKrupp System Engineering, Division Body in White, produces automated final assemblies of chassis. Photo courtesy of © ThyssenKrupp AG,



GERMAN AMERICAN TRADE

THE MAGAZINE OF THE GERMAN AMERICAN CHAMBERS OF COMMERCE

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German American Trade is published bimonthly by the German American Chamber of Commerce Inc., 75 Broad Street, 21st Floor, New York, NY 10004.

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Periodical postage paid at New York, NY and additional mailing offices:
USPS number 025-026

One Year Subscription: US\$ 30 (Euro 48)
One subscription is included in annual membership dues.

Single copy: US\$ 5 (Euro 8)

U.S. postmaster send address changes to:
German American Trade, 75 Broad Street,
21 Fl., New York, NY 10004.

Office of publication: New York

Publication date of this issue: Mar/Apr 2013

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<h1>Event Calendar</h1> <p>March 4 – May 3</p> 	<h2>March 4</h2> <p>Symposium; Smarter Solutions for Renewables and Energy Efficiency</p> <p>RGIT Washington, DC www.rgit-usa.com</p>		<h2>March 5 – 8</h2> <p>Breakfast w/... Shane Owl-Greaseon, Co-Founder of Georgia Utilities, Inc. (The Halle Foundation Speaker Series)</p> <p>GACC South Atlanta, GA www.gaccsouth.com</p>	<h2>March 7</h2> <p>Knowledge Exchange</p> <p>GACCoM Chicago, IL www.gaccomm.org</p>
<h2>March 8</h2> <p>Specialty and Organic Foods</p> <p>GACC Western U.S. San Francisco, CA www.gaccsanfrancisco.com</p>		<h2>March 10</h2> <p>CO Chapter: 2nd Annual Trade Mission to CeBIT at Hannover, Germany</p> <p>GACCoM-CO Chapter Hannover www.gaccco.org</p>	<h2>March 11</h2> <p>German Business Roundtable</p> <p>GACC South Dallas, TX www.gaccsouth.com</p>	<h2>March 12</h2> <p>German Business Roundtable</p> <p>GACC South Houston, TX www.gaccsouth.com</p>
<h2>March 12</h2> <p>Auto Supplier Conference</p> <p>GACCoM Detroit, MI www.gaccomm.org</p>	<h2>March 20</h2> <p>International Business Networking</p> <p>GACCoM Chicago, IL www.gaccomm.org</p>	<h2>March 28</h2> <p>Business Seminar with Williams Mullen – "Taxing the Cloud"</p> <p>GACC South Atlanta, GA www.gaccsouth.com</p>		<h2>April 1</h2> <p>Federal Reserve Bank Tour for Young Professionals</p> <p>GACC NY New York, NY www.gaccny.com</p>
<h2>April 4</h2> <p>Knowledge Exchange</p> <p>GACCoM Chicago, IL www.gaccomm.org</p>	<h2>April 9</h2> <p>German Business Roundtable</p> <p>GACC South Houston, TX www.gaccsouth.com</p>		<h2>April 11</h2> <p>Smart Grid Delegation to Hannover Fair, Germany</p> <p>GACCoM Hannover www.gaccomm.org</p>	<h2>April 16</h2> <p>SAE Reception</p> <p>GACCoM-MI Chapter Detroit, MI www.gaccmi.org</p>
<h2>April 22</h2> <p>Southern SME Forum (incl. Annual General Meeting)</p> <p>GACC South Nashville, TN www.gaccsouth.com</p>	<h2>April 24</h2> <p>Annual Meeting</p> <p>GACC NY New York, NY www.gaccny.com</p>	<h2>April 22 - 26</h2> <p>Water Expert Delegation to Germany</p> <p>GACCoM Germany www.gaccomm.org</p>	<h2>April 30</h2> <p>Factory Tour at Ponce City Market (formerly City Hall East)</p> <p>GACC South Atlanta, GA www.gaccsouth.com</p>	<h2>May 1</h2> <p>25 Years Anniversary RGIT in Washington, DC</p> <p>RGIT Washington, DC www.rgit-usa.com</p>
				<h2>May 3</h2> <p>Transatlantic Business Conference and MERLIN Awards Gala</p> <p>GACCoM Chicago, IL www.gaccomm.org</p>

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