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German auto makers are accelerating plans to ramp up U.S. production and add jobs as a hedge against the dollar's persistent weakness against the euro, which has battered profits on vehicles exported from Europe.  **AVOIDING THE EURO**    •  **The Shift:** German auto makers, faced with a strong euro, are increasing production capacity at U.S. plants.  •  **A Broad Trend:** The moves accelerate a shift in which domestic auto makers are cutting jobs and foreign companies are creating them.  •  **Coming Soon:** Volkswagen, which hasn't built cars in the U.S. in nearly 20 years, may be the next European auto maker to set up a U.S. plant.  In Spartanburg, S.C., **BMW** AG is gearing up to boost production capacity at its only U.S. factory to more than 200,000 vehicles a year from 104,000. BMW already builds the Z4 sports car and X5 SUV there, and it plans to add the X3 and X6 SUVs as well. The company says the expansion is intended to help shield its bottom line from currency fluctuations that reduced its 2006 earnings by $902.4 million.  Separately, **Volkswagen** AG, which stopped building cars in the U.S. nearly 20 years ago, is mulling the idea of starting again as part of a broader turnaround of its money-losing North American business. The company has lost more than €2.5 billion ($3.42 billion) in the region over the past five years. Its only factory in North America, in Puebla, Mexico, is operating at near full capacity, churning out 400,000 cars this year, and the company currently has to import from Europe several of the models it sells in the U.S.  "We clearly have to consider a [new] production location in North America," Stefan Jacoby, recently named chief executive of Volkswagen of America Inc., told journalists and analysts on a conference call last month.  In Vance, Ala., **DaimlerChrysler** AG is setting production records at its 10-year-old Mercedes-Benz factory. Thanks to a $600 million expansion, employment at the factory has doubled since 2001 to 4,000 people, as production has grown to 173,000 vehicles annually -- more than twice the plant's original capacity. Although the expansion began when the dollar was stronger than the euro, "given how the exchange rate has developed, it was the right decision" to expand there, says a Daimler spokesman.  The European auto makers' moves could accelerate a shift in the balance of power in the U.S. auto sector that has been under way for more than 20 years. A combination of productivity improvements and shifting of parts production to lower-wage countries has cut the total number of jobs supported by the U.S. auto industry by 25%, to 846,900 from just over 1.1 million in 1999, according to Bureau of Labor Statistics data compiled by Sean McAlinden, an economist with the Center for Automotive Research in Ann Arbor, Mich.  Since 1990, **General Motors** Corp., **Ford Motor** Co. and Chrysler LLC have closed 29 North American assembly plants. In the same period, Asian and European car makers have opened 24 North American assembly plants. Total U.S. vehicle production has grown to 16 million a year in 2006 from 12.5 million in 1990, according to Harbour Consulting of Troy, Mich.  At the assembly-plant level, unionized workers have taken the brunt of job losses during the past 20 years, losing out to lower-cost nonunion operations run by overseas auto makers. That's a central issue as Detroit's three auto makers and the United Auto Workers bargain over a new national contract this summer.  Making cars in the U.S., where costs and revenue are in dollars, provides a natural hedge for European auto makers looking to insulate themselves from unfavorable exchange rates. Although exchange rates can be unpredictable, companies such as Mercedes-Benz say they see a strong euro as a more long-term phenomenon. BMW and Mercedes sell the bulk of their U.S.-made vehicles in the U.S., but also export American-made models to other markets, including Europe.  Mercedes exports vehicles from Vance to 135 countries, led by Germany, Italy, France and the United Kingdom. BMW exports about 60% of the vehicles made in South Carolina to more than 120 markets.  Both companies are increasing exports to Europe from the U.S., most notably SUVs, one of the fastest-growing segments of the Western European car market in recent years.  Because expanding a factory can cost hundreds of millions of dollars, German car makers normally prefer to offset the strong euro by raising prices. But because of competition in the U.S., most companies -- even those with relatively affluent customers -- say they can't afford that option.  [Combo]"We have been extremely cautious with price adjustments in recent years," says Peter Schwarzenbauer, chief executive of **Porsche** AG's U.S. business. During the late 1980s and early 1990s, Porsche raised prices as often as three times a year in response to a weak dollar. Porsche's U.S. sales slid from 30,000 cars in 1986 to 4,500 in 1992.  Other car makers are recalibrating their product plans. In Germany, Mercedes-Benz officials cite the dollar's weakness as key to their decision not to bring the brand's small B-Class model to the U.S. Company officials say the profit margins on the vehicle would have been too low to justify exporting it to the U.S.  Currency shifts are also affecting Asian automakers, though in different ways. In South Korea, Hyundai Motor Co. and Kia Motors Corp., hit by a strong won, have accelerated their overseas expansion plans. Kia last year broke ground on its first U.S. factory. The plant, in Georgia, is about 100 miles from Hyundai's first U.S. factory in Alabama.  Japan's **Toyota Motor** Corp. and its luxury brand Lexus are looking at increasing production in Japan. Rivals of Lexus and Toyota, which have been steadily increasing market share in the U.S., contend that an undervalued yen is unfairly aiding the Japanese brands.  So far, the shift in German car makers' production is mainly benefiting Southern U.S. towns such as Vance, not the upper Midwestern states hard hit by cutbacks at GM, Ford and Chrysler.  Mercedes located its first U.S. factory in Vance a decade ago, in part because of Alabama's nonunion, right-to-work environment. In the Spartanburg area, BMW's presence and the suppliers that followed have created more than 16,000 jobs. BMW's operations aren't unionized.  Vance's population has grown to about 3,000 from 250 residents. Mayor Keith Mahaffey said his town has gone from a sleepy place where residents left their doors unlocked and windows open to a more fast-paced town where people now lock up when they leave home. But he said the overall affect of Mercedes's presence has been a boon for the area, with Mercedes and its suppliers creating more than 45,000 jobs in Alabama.  "Vance was just a small farming community before Mercedes came along," Mr. Mahaffey said. "It's caused us to relook at how we live and has made us more worldly."  The expansion of German car makers in the southern U.S. is helping lure some of their traditional suppliers from Germany, including VST Keller GmbH of Schopfheim. The company, which treats stamping dies used to make steel parts for cars, opened its first plant outside Germany in Pell City, Ala., in the autumn, in large part to be within a few hours' distance of BMW, a longtime client in Germany.  "We must follow the work," says Uwe Horschig, the company's general manager for European sales. The company has since landed contracts with **Nissan Motor** Co. in Tennessee and **Honda Motor** Co. in Alabama.  The shift in investment by German companies toward the U.S. is also creating losers elsewhere. Canadian auto supplier **Magna International** Inc. has lost the BMW X3 and the Chrysler 300C sedan, which have been produced in Magna's affiliate in Graz, Austria. The Chrysler 300C will be shifted to a Chrysler plant in Canada.  With the X3 accounting for roughly 45% of Magna Steyr's production volume, Graz local officials are waiting to learn how Magna will compensate for the loss. Magna says it is continuing to have discussions with other auto makers to help offset the loss of the BMW and Chrysler models.  "I cannot deny it, BMW's decision...does hurt," says Siegfried Nagl, Graz's mayor. "But I am convinced we will catch up again soon. We are always working on new products at Magna."  **--John D. Stoll in Detroit and Almut Schoenfeld in Berlin contributed to this article.**  **Write to** Gina Chon at [gina.chon@wsj.com](mailto:gina.chon@wsj.com)1 and Stephen Power at [stephen.power@wsj.com](mailto:stephen.power@wsj.com)2   |  |  | | --- | --- | |  | **URL for this article:** <http://online.wsj.com/article/SB118705493205696767.html> | |  | **Hyperlinks in this Article: (1)** <mailto:gina.chon@wsj.com> **(2)** <mailto:stephen.power@wsj.com> | |

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