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Will Tesla 'gigafactory' fight come down to Texas vs. California?

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Tesla Motors founder Elon Musk is setting up an unusual head-to-head contest for his company's \$5 billion battery plant and its 6,500 jobs.

Instead of naming one winner, the California billionaire is upping the economic arms race by breaking ground on at least two sites — weeks apart — to guard against any regulatory delays. Tesla ultimately will build only one battery plant and leave someone finishing second in a very public way.

"It's the economic development project of the decade," said John Boyd, a New Jersey-based site consultant who's been in the business since 1975. "Someone will be the ultimate bridesmaid."

Tesla is planning a "gigafactory" so large — 10 million square feet — that it could be seen from space and would double the world's production of lithium-ion batteries. Cutting the cost of battery manufacturing is key to Musk's attempts to make his \$70,000 to \$130,000 electric cars more affordable and to fuel his expansion into China and Europe.

The site requires 1,000 acres, rail access and renewable energy sources.

Sites mentioned in Central Texas — Hutto, San Marcos or San Antonio — now find themselves competing against California, Musk's home state that he added belatedly at the behest of U.S. Sen. Dianne Feinstein, D-Calif., to the original list of Arizona, Nevada, New Mexico and Texas.

Fresh off losing Toyota's North American headquarters to Texas — it is relocating to Plano — California Gov. Jerry Brown knows the stakes are now higher for the Golden State to have Tesla locate its battery plant and 6,500 manufacturing jobs there.

“The (Brown) administration is working every day to bring companies to California and help them grow here,” said Brook Taylor, spokesman for the California Governor’s Office of Business and Economic Development. “Tesla is certainly one of those companies.”

In a conference call last week, Musk said Tesla would break ground at its first site next month, then follow up at a second site a month or two later. He said the Brown administration is working hard to accommodate Tesla, and he called California an “improbable, but not impossible” contender.

Arizona, Nevada and New Mexico remain contenders, but the prospect of Texas and California going head-to-head would continue the red state vs. blue state narrative that Gov. Rick Perry loves so much.

Some analysts question whether California is truly a contender or whether Musk is trying to appease officials in a state where he will still build cars, rockets and solar panels at his various businesses no matter where the battery plant is located.

“It’s unusual, but so is Elon Musk,” Boyd said of the two-site elimination contest.

Sam Jaffe, a battery expert with Colorado-based Navigant Research, said he had never heard of breaking ground on two sites for one plant.

“It’s a waste of resources,” he said. “It sounds like their fear is, once they make the announcement, they no longer have leverage.”

Boyd said leaving California out of the competition “was a public relations affront to the (Gov. Jerry) Brown administration.”

Sacramento Bee business columnist Dan Morain called it a slap when Tesla initially announced the battery factory could go elsewhere and “worst of all, Texas, with its insufferable governor who incessantly boasts about raiding other states’ businesses.”

He noted that Californians have supported Musk’s business ventures — he’s also the founder of SpaceX and the primary investor in Solar City — by buying a third of all the Tesla cars and by having clean air laws, subsidies and rebates to electric vehicle buyers.

Last month, Brown signed legislation granting property tax exemptions for the space industry, including SpaceX.

Tesla isn’t leaving California. Its Fremont assembly plant is only at half capacity, and last month Tesla leased a 430,000-square-foot facility in Lathrop that had been a DaimlerChrysler distribution center. Just last week, Tesla had to cancel a jobs fair at its Fremont assembly plant because the crush of applicants created traffic jams.

The California Governor's Office of Business and Economic Development "maintains a strong partnership with Tesla," Taylor said. "During this process, we've responded to their questions about locations the same as we did for their Palo Alto headquarters, their Fremont location and the recently acquired facility in Lathrop, California."

Californian competition

Nick Vyas, director for the Center for Global Supply Chain Management at the University of Southern California, acknowledges that land prices, wages and regulations make California a long shot.

But he said locating the "gigafactory" close to the Fremont assembly plant offers "just-in-time" inventory management advantages.

Also, Vyas said Musk's announcement that he wants to begin assembling cars in China within three or four years might make a West Coast location more desirable.

Musk seems most concerned about California's regulatory scheme.

"California has a lot of regulatory agencies, and although this will be a very green factory, we can't have a situation where an enormous amount of data has to be processed by a regulatory agency to find no significant impact and then give us approval to proceed," Musk told Bloomberg News.

"There are a lot of moving parts, a crazy amount of moving parts," Musk said. "If there's a laggard there, we'll have this massive facility and a ton of people trained and no ability to recoup revenue. It will be quite a bad situation."

Texas is considered a front-runner by many analysts. It has an array of incentives from local property tax abatement to state grants, including the governor's "deal-closing fund" with a remaining balance of about \$75 million after promising Toyota \$40 million last month.

Texas officials also boast about a regulatory scheme that is friendly to businesses, but will the approval process be fast enough for Musk?

In the past, Texas officials have complained of state competitors that give permits as part of their incentive packages.

Lucy Nashed, a spokeswoman for Perry's office, referred environmental questions about Texas' bid for Tesla to the Texas Commission for Environmental Quality. Agency officials said the timing would depend on the number and type of permits required, but that they haven't had any discussions about a Tesla plant.

Musk says the plant, mostly powered by solar or wind generation, will be a "green" factory.

“I hesitate to call battery manufacturing clean,” said Jaffe, the Colorado-based battery expert, “but the risks are relatively easy to mitigate.”

Besides lithium, nickel and cobalt are key ingredients in the manufacturing process. Jaffe said the key risk is that a fire or explosion that would release pollutants in the air.

“It’s not going to be like you have a belching smoke stack,” he said.

Bragging rights

Finally, there are the bragging rights, especially if the competition comes down to California and Texas.

When Toyota, which had been headquartered in California since 1957, announced last month it was moving to Texas, the headlines read, “California loses Toyota.”

Brown has tried to change that narrative, saying there was little California could do to keep Toyota’s North American headquarters. Jim Lentz, Toyota’s North American chief executive, agreed, saying it made sense for the corporate headquarters to be closer to Toyota’s assembly plants in the South.

“It may seem like a juicy story to have this confrontation between California and Texas,” Lentz told the Los Angeles Times, “but that was not the case.”

It’s one thing to lose an industry leader such as Toyota, but Tesla is a groundbreaking, California-bred company with a leader sometimes compared to the late Steve Jobs.

Jaffe said California might be back in the contest for Tesla because of Toyota.

“California looks pretty stupid,” he said. “They might overcompensate.”