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## Tesla picks Germany for its European factory, and Elon Musk drops the news in style



*Tesla CEO Elon Musk poses with his “golden steering wheel” award Tuesday in Berlin.*

By Christoph Rauwald and Dana Hull - Bloomberg - Nov. 13, 2019

Elon Musk picked a glitzy event in Germany, a few hours’ drive from the birthplace of the internal combustion engine, to drop the news before some of the world’s biggest car bosses: Tesla Inc. plans to set up shop in their backyard.

The billionaire chief executive announced Tuesday that Tesla will expand its global manufacturing network with a factory near Berlin. At a red-carpet awards ceremony attended by the heads of BMW, Volkswagen and Audi, he said his electric vehicle company will also establish an engineering-and-design center.

“Some of the best cars in the world are obviously made in Germany,” Musk said while accepting a trophy for the Tesla Model 3, which beat out BMW and Audi sedans for midsize car of the year. He said the country is “not that far behind” in electric cars, while also acknowledging that the market for them is “unproven.”

The news wasn’t completely out of left field — Musk has said before that Tesla would announce the location for a factory in Europe before the end of this year, and that Germany was a frontrunner. But it nonetheless bolstered the CEO’s reputation of having a flair for the dramatic. Fresh off a surprise profit report that sent Tesla shares surging, he threw down the gantlet in front of rival executives who no longer dismiss his company as a niche automaker.

“Elon Musk has an ability to make a splash,” said John Boyd, principal of an eponymous manufacturing site-selection firm based in Princeton, N.J. “Not only does Germany bring top-level manufacturing skill sets and positive supply chain dynamics to the table, but there is a cachet value to Tesla establishing a brick-and-mortar presence in Germany — a nation synonymous with precision car manufacturing.”

Tesla shares climbed Wednesday morning but ended the day down 1.1% at \$346.11. The stock had risen five straight days and closed Tuesday at an 11-month high.

Musk has been relying on a single auto assembly plant in Fremont, Calif., to build his \$62-billion company. That facility is supported by the first of the company’s so-called gigafactories near Reno, which makes batteries. Tesla is on the verge of starting sales of Model 3 cars produced at its latest plant, near Shanghai.

Adding a European factory raises the stakes for established automakers already facing a serious threat from the electric upstart, but it will take time for the plant to get up and running. Musk estimated this year that Tesla’s European gigafactory probably won’t be operational until 2021.

“The Berlin location serves two unique goals,” said Gene Munster, a managing partner at venture capital firm Loup Ventures. “It’s strategic to lure German automotive talent to Tesla, and it’s a statement that Elon wants to one-up auto companies from that region.”

The gigafactory will be located near Gruenheide, just outside Berlin in eastern Germany, according to Tagesspiegel newspaper — near the coming Berlin Brandenburg Airport. It’s expected to produce both the Model Y crossover and the Model 3 sedan.

For Tesla's design center, Berlin has offered locations including the site of the existing Tegel airport, which will be phased out after the new airport opens, according to a letter from the city's economy minister. About 10,000 jobs will be created, Bild reported.

Tesla's current modest presence in Berlin includes a store and service center near the Schoenefeld airport, and showrooms near Potsdamer Platz and on the West Berlin shopping boulevard Kurfuerstendamm.

While the future of Germany's electric-car market looks crowded, the politics of shifting away from the internal combustion engine also will be messy. Daimler, the maker of Mercedes-Benz cars, is running into labor-union resistance over where future electric cars will be produced ahead of a key meeting with investors Thursday in London. Audi, the biggest profit contributor to Volkswagen, faces similar fights over safeguarding employment at its main German factories that specialize in sedans and station wagons.

German Chancellor Angela Merkel's government and local automakers have agreed to boost incentives for electric vehicles, intensifying Germany's effort to move away from the combustion engine to reduce exhaust emissions. Still, building vehicles in a country that has some of the highest labor and energy costs worldwide is bound to be a challenge. European customers also expect a network of dealers and repair shops to reliably handle maintenance and repair work, and Tesla has struggled with that lately.

"There was very intense competition in recent months among different European nations," Economy Minister Peter Altmaier told reporters in Berlin, adding that subsidies hadn't been discussed. "It's an important and positive development that Germany was chosen."

Adding production in Germany and China will probably help Musk boost Tesla's sales in those regions, according to Kevin Tynan, a Bloomberg Intelligence auto analyst. "The sustainability of the demand will be more the question," he said. "And if local competition becomes real competition, it will be more difficult."

Merkel's government announced last week that cash incentives will jump 50% to as much as \$6,680 per electric vehicle, with the auto industry covering half the cost. The changes will take effect this month and run through 2025.

Musk choosing greater Berlin for a factory was "surprising but not fallacious," said Ferdinand Dudenhoeffler, director of Center for Automotive Research at the University of Duisburg-Essen. Battery-cell manufacturing requires space, infrastructure and subsidies, and the city is a good fit for a premium brand like Tesla's, he said.

Shortly after dropping the news, Musk sent out a pair of tweets to make sure his 29.3 million Twitter followers wouldn't miss it. He said the factory will make batteries and power trains in addition to cars, beginning with the Model Y crossover unveiled this year.