



Tesla Picks Germany for European Gigafactory

By Christoph Rauwald and Dana Hull - November 12, 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 officer 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 AG, Volkswagen AG and Audi AG, he said the 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 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 flair-for-the-dramatic reputation. Fresh off a surprise profit report that sent Tesla shares surging, he threw down the gauntlet in front of rival executives that 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, New Jersey. "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."



Elon Musk receives the Golden Steering Wheel award in Berlin on Nov. 12.

Tesla shares traded up 0.7% before the market opened in New York. They closed Wednesday at \$349.93, their highest since December, after Musk announced his plans.

Making a Statement

Musk has until now relied on a single auto assembly plant in Fremont, California, to build a \$63 billion company. That facility is supported by the first of the company's so-called gigafactories near Reno, Nevada, that makes batteries. Tesla is on the verge of starting sales of Model 3s produced at its latest production facility, near Shanghai.

While adding a European factory raises the stakes for established automakers already facing a serious threat from the electric upstart, it's likely going to take time for the plant to get up and running. Musk estimated earlier 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.

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 hub is opened, according to a letter from the city’s economy minister. Around 10,000 jobs will be created, Bild reported.

Tesla’s modest presence in Berlin now 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 are going to be messy. Daimler AG, the maker of Mercedes-Benz cars, is running into labor-union resistance over where future electric cars will be produced ahead of a critical meeting with investors Thursday in London. Audi, the biggest profit contributor to Volkswagen AG, faces similar fights over safeguarding employment at its main German factories that specialize in sedans and station wagons.

Chancellor Angela Merkel’s government and local automakers have agreed to boost incentives for EVs, 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, which Tesla has struggled with lately.

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



The Tesla Gigafactory in Shanghai. Photographer: Qilai Shen/Bloomberg

Demand Boost

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 by 50% to as much as 6,000 euros (\$6,680) per electric vehicle, with the auto industry covering half the cost. The changes will take effect this month and run through 2025.

For Musk, choosing greater Berlin for a factory was "surprising but not fallacious," said Ferdinand Dudenhoeffer 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 it wouldn't be missed by his 29.3 million Twitter followers. He said the factory will make batteries, powertrains and vehicles, beginning with the Model Y crossover unveiled earlier this year.