Forbes

# If Tesla Would Stop Selling Cars, We'd All Save Some Money

By: Patrick Michaels – May 27, 2013

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First of all, let's stipulate that the Tesla model S is a pretty cool looking car, that the high-end version accelerates like a rocket, and that its massive, low center of gravity pretty much inures it against a rollover. Next, let's congratulate Elon Musk on paying off his half-billion dollar federal loan ahead of time. Finally, thanks to everyone in the country for helping to make this possible, and for continuing to do so.

The public is still on the hook for Tesla, and will be for the foreseeable future.

First, there's the $7500 taxback bonus that every buyer gets and every taxpayer pays. Then there are generous state subsidies ($2500 in California, $4000 in Illinois—the bluer the state, the more the taxpayers get gouged), all paid to people forking out $63K (plus taxes) for the base version, to roughly $100K for the really quick one.

The latest round of Tesla wonderment came when it reported its first quarterly profit earlier this month. TSLA stock darned near doubled in a week. Musk then borrowed $150 million from Goldman Sachs (shocking!) and floated a cool billion in new stock and long-term debt. That's how we—the taxpayers—were repaid.

But is TSLA another Google, or just another DoubleClick? DCLK zoomed from $2 to $200 without ever showing a profit, something Tesla has yet to do with its cars. It then famously crashed.

Tesla didn't generate a profit by selling sexy cars, but rather by selling sleazy emissions "credits," mandated by the state of California's electric vehicle requirements. The competition, like Honda, doesn't have a mass market plug-in to meet the mandate and therefore must buy the credits from Tesla, the only company that does. The bill for last quarter was $68 million. Absent this shakedown of potential car buyers, Tesla would have lost $57 million, or $11,400 per car. As the company sold 5,000 cars in the quarter, though, $13,600 per car was paid by other manufacturers, who are going to pass at least some of that cost on to buyers of their products. Folks in the new car market are likely paying a bit more than simply the direct tax subsidy.

How's this going to work in the future? As long as the competition has to pay greenmail to Tesla, probably just fine. And with California gradually ratcheting up the electric-vehicle mandate, maybe just finer. No wonder the stock price doubled and Goldman shelled out.

There's only one slight, teensy-weensie problem. While there were enough high-end customers to supply Tesla around $400 million in gross receipts last quarter (that would be 5,000 cars at an average of $80,000 a copy), they still lost money. How many customers are there for such a pricey car?

Tesla can't increase demand by dropping the price very much. About the only way they can do this (barring some—currently remote—major battery technology improvements) is by cutting the vehicle's range. Nissan's Leaf provides a bit of instruction here. Selling for around $32K (out the door) it sold pitifully few—less than 10,000 last year.

As the May 22 *Wall Street Journal* showed, when a battery car's range gets in the Leaf zone (real world: 70 miles; advertised: 83) you can't even give it away. Couple the federal $7500 with $2500 in several states, and the costs of a two year lease, allowing for reduced fuel costs, more than pay for the car. That's right, free transportation, and sales still suck.

Tesla can't go much below the EPA estimated 205 mile range (make that about 170 in modestly cold winter weather) of its base version before it hits the same range-anxiety wall.

If Tesla's sales drop—not by much—the company isn't going to be able to cover its losses by selling green indulgences. First, the primary losses increase, and then they have fewer indulgences, which are generated by car sales.

So here we have a car pushing $100,000 paid for in no small part by you and me, no matter whether Tesla paid back their federal loan or not. The small comfort is that we are off the hook for any default on that loan, but it would be more comfort if we weren't all compelled—completely against most of our wills—to shell out around somewhere around $10K (depending on state) for every one that goes out the door. The more they sell, the more we pay.

Oddly enough, the only way to stop this craziness if for the company to stop making cars. If demand drops much, or California goes into a major fiscal crisis (they're working on it), oddly enough, Tesla's bankruptcy will save the rest of us some money.