Localisation story of Tesla: India versus China deal

SURAJEET DAS GUPTA
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The new electric vehicle policy of the government offers some key terms which seem to be more attractive for car makers than what Tesla was able to extract from China when it set up its plant in Shanghai in 2019.

Under the new policy, India has offered a localisation term of reaching a domestic value addition (DVA) of 25 per cent in three years and 50 per cent in 5 years from the date of issue of the approval letter.

In China, on the other hand, 95 per cent of their components used in the plant is sourced locally, thereby creating a large Chinese component supply base. When they started out rolling out cars in December in 2019, about one-third of the components were from China.

Tesla had an agreement with, for instance Panasonic to provide them with lithium ion batteries, but in China, it went to Chinese battery manufacturer CATL for most of its requirements. It has a contract with CATL, now the world's largest battery maker, till 2025.

Tesla has also acquired companies in the US, Germany, and Canada and has brought them to China for crucial areas of technology. And it has signed up for land to manufacture cobalt-free lithium ion phosphate batteries with its partner.

Car makers which manufacture in India and are eligible under the production-linked incentive (PLI) scheme for electric vehicles have to begin with a DVA of 50 per cent. An auto veteran who has run global car companies in the country, says: "Companies like Tesla and others have been given a long rope in India. There is no reason why they cannot start manufacturing cars at 50 per cent localisation, as India has a huge high-quality component industry which is exporting to the world. Everything, except the battery cells, is available. In three years they should have gone to 80-90 per cent."

The policy has also cut import duty from 60-100 per cent to only 15 per cent on cars with a CIF (cost, insurance and freight) value of over $35,000 for 5 years, although it has given companies three years to set up a manufacturing plant in the country with a minimum investment of $500 million. In China Musk had requested two years to set up the plant, but was asked to cut it to one year. And he delivered. The construction of the plant started in January 2019 and production began in October 2019. It committed to invest $2 billion in five years and the Shanghai government offered land at one-tenth the market rate.

That said, the Chinese have given many other sops to Tesla. For example, earlier, China had a strict policy of allowing only joint ventures with Chinese companies for making cars. But to help Tesla it dropped the rule in 2018 so that Musk's firm could come as a fully-owned subsidiary.

Tesla was also able to lobby and get China to change its emissions policy. Now, the firms that make clean cars get carbon credits which they can sell and make money. This has provided Tesla with substantial incomes.

Moreover, China's state-run banks provided loans to the tune of $1.5 billion to the company at low interest rates.

RIDE IN CHINA

- Construction of factory in Shanghai completed in under a year
- Has already reached 95% localisation in components. Started with one-third in 2020
- Was given land at one-tenth the market price by Shanghai Municipality. Tesla committed $2 billion in five years
- China scrapped its rule of permitting only 50-50 joint ventures with Chinese players
- Provided low interest loans from banks to Tesla for constructing the factory