

ELON MUSK MAKES HIS MONEY SELLING FAKE ENERGY CREDITS

Electric Vehicles (EVs) are currently a costly way to reduce carbon emissions and unlikely to put a serious dent in oil demand in the near term.

But they remain popular with the net-zero crowd, which sees electrification as the answer to climate change. Had Democrats swept this year's election, the EV sector would have benefited from a wave of federal subsidies. With voters opting for a divided government, any new provisions for EVs will probably be modest.

The EV industry isn't worried. Subsidizing EVs isn't just a poor investment of taxpayers' dollars—it turns out subsidies are also bad for business. Tesla [TSLA +2.2%](#) founder Elon Musk has even been critical of government subsidies.

“Over the years, there's been all these sort of irritating articles like Tesla survives because of government subsidies and tax credits,” Musk said in 2017. “All those things would be material if we were the only car company in existence. We are not. There are many car companies. What matters is whether we have a relative advantage in the market.”

Tesla is in an awkward position when it comes to government subsidies. Early on, the company received \$465 million from the government's Advanced Technology Vehicles Manufacturing (ATVM) Loan Program. The funds helped Tesla develop the Model S, a luxury vehicle with a price tag starting at \$68,000 back in 2017.

Whatever your position on subsidies in general, it's hard to make the case that taxpayers should foot the bill to produce luxury cars marketed to the wealthiest Americans.

You can only imagine the outcry if, say, the government subsidized the production of BMWs or Cadillacs. Or look at the uproar in Alabama in the late 1990s, when state lawmakers financed the construction of a Mercedes-Benz plant in Vernon, Alabama, population 2,000, and a median income of around \$34,000 a year.

And yet, many people argue that because Tesla produces EVs, the company should get a pass. It's true that, to some degree, government funding has helped accelerate the development of EV technology. It's also true that the reality of subsidies can make doing business difficult, even for folks like Musk.

As Musk stated in a quarterly financial results conference call, “...in fact, the incentives give us a relative disadvantage. Tesla has succeeded in spite of the incentives, not because of them.”

To understand Musk's frustration with subsidies it's important to understand the Zero-Emissions Vehicle (ZEV) program.

ZEV, which is active in California and nine other states, mandates auto manufacturers produce a certain number of electric cars or pay a \$5,000 fine for each EV they do not produce. An auto manufacturer can avoid the penalty by purchasing ZEV credits from manufacturers like Tesla, who earn extra credits for producing more EVs than their quota.

These credits are not sold at \$5,000. Instead, due to Tesla's oversupply, they are sold by Tesla to competitors at a discount of around \$1,600. On the one hand, this provides Tesla with a windfall stream of income. On the other hand, Tesla is selling something for \$1,600 worth \$5,000 to its competitors.

"If General Motors [GM +0.2%](#) or Ford or somebody else makes electric vehicles, they get to monetize their ZEV credit at 100 cents on the dollar," explained Musk.

But because Tesla generates more credits than it needs, those extra credits are worth more to its competitors than to Tesla.

Meanwhile, a traditional automaker who may believe EVs are commercially unviable is forced to make them anyway. Under current regulations, automakers are pushed to produce more EVs than there is demand for. For example, the ZEV program requires at least 15.4 percent of an automaker's fleet sales to be EVs or hydrogen vehicles by 2025. If consumer demand for EVs is not there by 2025, those vehicles will have to be sold at a loss.

Thankfully, EVs' future and viability don't depend on subsidies—there's plenty of capital in the private markets.

This is especially true in the transportation sector, and even more so when fuel is involved. Fuel is a multi-trillion-dollar global market, meaning any company that captures even a sliver of market share stands to make billions in profit. And global consumers are eager to find an affordable, clean, reliable source of alternative energy to fuel the transportation sector.

Financially viable EV companies aren't dependent on taxpayer subsidies. There is plenty of demand for new technology that reduces carbon emissions and delivers affordable transportation. There is plenty of room for innovation. In fact, the transportation market is ripe for it.