

Exclusive: Tesla's solar factory is exporting most of its cells - document

Nichola Groom



(Reuters) - The “great majority” of solar cells being produced at Tesla Inc’s factory in upstate New York are being sold overseas instead of being used in the company’s trademark “Solar Roof” as originally intended, according to documents reviewed by Reuters.



FILE PHOTO: Flags fly over the Tesla Inc. Gigafactory 2, also known as RiverBend, a joint venture with Panasonic to produce solar panels and roof tiles in Buffalo, New York, U.S., August 2, 2018. REUTERS/Brendan McDermid/File Photo

The exporting underscores the depth of Tesla’s troubles in the U.S. solar business, which the electric car maker entered in 2016 with its controversial \$2.6 billion purchase of SolarCity.

Tesla has only sporadically purchased solar cells produced by its partner in the factory, Panasonic Corp, according to a Buffalo solar factory employee speaking on condition of anonymity. The rest are going largely to foreign buyers, according to a Panasonic letter to U.S. Customs officials reviewed by Reuters.

When the two firms announced the partnership in 2016, the companies said they would collaborate on cell and module production and Tesla would make a long-term commitment to buy the cells from Panasonic. Cells are components that convert the sun's light into electricity; they are combined to make solar panels.

Tesla planned to use them in its Solar Roof, a system meant to look like normal roof tiles. Tesla Chief Executive Elon Musk billed the product as a cornerstone of the strategy behind the acquisition - selling a low-carbon lifestyle to eco-conscious consumers who could use the power from their Solar Roof to charge their Tesla electric vehicle.

But the company has installed them on just a handful of rooftops nationwide so far after production line troubles and a gutting of Tesla's solar sales team.

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California state data shows 21 Solar Roof systems were connected by the state's three investor-owned utilities as of Feb. 28. Only a few others were connected in the northeastern United States, according to a former Tesla employee with knowledge of the matter, who was laid off during staff cuts earlier this year and asked not to be named.

Tesla declined to comment on the company's purchases of cells from Panasonic and would not provide figures for Solar Roof installations. But a company official said in an email "the number of solar roofs you cite in the story is low and unrepresentative as we are actively installing the Solar Roof in eight states currently."

The situation raises new questions about the viability of cash-strapped Tesla's solar business. Musk once called the deal a "no brainer" - but some investors panned it as a bailout of an affiliated firm at the expense of Tesla shareholders. Before the merger, Musk had served as

chairman of SolarCity's board of directors, and his cousin, Lyndon Rive, was the company's CEO.

Panasonic spokesman Alberto Canal declined to comment on the company's sales to Tesla, but confirmed that Panasonic was seeking to use its Buffalo operations to fulfill demand for U.S.-made solar cells from foreign buyers.

Panasonic had said in a filing with the U.S. Department of Commerce in October 2018 that foreign demand for U.S.-made solar cells had sprung up after the Trump Administration imposed tariffs on overseas-made panels in 2018.

Panasonic also produces traditional solar panels at the Buffalo plant for Tesla, but has been selling many of them to other buyers since at least last year due to low demand from the California car company, Reuters reported in August 2018. Tesla last month reported a 36 percent slide in its overall solar sales in the first quarter, adding to previous big drops since the SolarCity acquisition.

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Since Tesla purchased SolarCity in the fourth quarter of 2016, installations have dropped more than 76 percent, according to company financial disclosures.

After gutting its solar sales team and ending its retail relationship with Home Depot, Tesla last month announced a plan to counter the downward spiral by offering cut-rate prices on standardized rooftop systems and requiring would-be customers to order solar products online.

Panasonic's move to diversify its solar customers is the latest sign of the company falling out of step with its longtime partner. Panasonic is Tesla's sole battery supplier for its electric car business, but Musk last month blamed Panasonic for EV production delays. He has also said Tesla was looking for more battery suppliers for its new Shanghai car factory.

SEPARATE OPERATIONS

Panasonic's letter to U.S. officials last October accompanied a request to produce the cells in a foreign trade zone within the Buffalo plant that would allow Panasonic to import certain parts tariff-free because the finished cells would be sold overseas, not domestically.

That request was granted in April.

The zones help companies avoid, delay or pay reduced tariffs on imported parts in cases where it helps U.S. manufacturers compete with overseas rivals.



FILE PHOTO: A worker is seen outside the Tesla Inc. Gigafactory 2, which is also known as RiverBend, a joint venture ...

“It is fully anticipated that the majority of the cells to be produced” in the FTZ “will be exported,” the company said in its application.

Panasonic’s Canal said foreign solar panel manufacturers want the Buffalo plant’s cells because solar panels assembled abroad with American-made cells can be shipped to the United States tariff-free, according to U.S. trade rules implemented last fall.

Panasonic’s Buffalo operation is one of few U.S.-based solar cell producers because it is traditionally far cheaper to make the components in other countries, putting it in a unique position to serve the foreign demand.

Canal would not disclose the company’s non-Tesla solar cell customers or say what percentage of its Buffalo cell output was being shipped outside the country, saying that information was “proprietary and competitive.”

A Panasonic source said much of the exported material was going to a large Asian buyer.

Tesla inherited the factory, known as RiverBend, through its purchase of SolarCity, and is now required to deliver on investment and employment promises that SolarCity had made in exchange for \$750 million in state subsidies.

The factory employs about 800 workers, and by this time next year it will be required to have 1,460 employees or pay millions in penalties.

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The state of New York remains pleased with its investment in the factory and Panasonic's move to diversify its customer base beyond Tesla.

“We have two of the leading clean energy companies in the world in Buffalo at the RiverBend facility,” Pamm Lent, spokeswoman for Empire State Development, said in a statement. “Tesla produces their innovative solar roof tiles largely for development and testing with the goal of full scale launch in the future. Panasonic is now the largest producer and employer at RiverBend with a customer base independent of Tesla.”

Today, the companies operate separately at the Buffalo factory, according to one current and one former Panasonic employee.

“Everybody wants Tesla to succeed,” the employee said, “but we are operating completely independently from them right now.”

Reporting by Nichola Groom; Additional reporting by Makiko Yamazaki in Tokyo; Editing by Richard Valdmanis and Brian Thevenot

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