

Tesla Motors (TSLA): ZEV Carbon Credits, Subsidies and the Fake Economy

Tesla Motors (TSLA) has zero-emissions vehicle (ZEV) carbon credits manufactured by bureaucrats to thank for giving it some net income along with subsidies or tax breaks to car buyers for helping out the top line.

By John Udovich

Jun 5, 2013 1:58:22 AM PDT

An article posted on InsiderMonkey about just how **Tesla Motors Inc (NASDAQ: TSLA)** managed to produce net income the last quarter through the use of **zero-emissions vehicle (ZEV) carbon credits** (that would be on top of direct or indirect subsidies to its core group of buyers in the so-called “one percent”) is worth examining more thoroughly given the stock’s 185.5% run-up this year and how being part of the fake economy (think of the dot.coms that became dot.bombs when the VC money stopped flowing or exotic mortgage backed securities or derivatives etc.) can be profitable (at least in the short-term). Basically, the article dug around Tesla Motors’ financials and noted the \$68 million in revenue generated by selling so-called zero emission vehicle or ZEV credits to other automakers. This \$68 million went straight to Tesla Motors’ bottom line – turning a negative into a positive as there is little cost associated with manufacturing ZEVs.

Why? You see, ZEV carbon credits aren’t something manufactured by blue-collar autoworkers in an auto plant located in some manufacturing hub like Detroit or even Silicon Valley, they are something manufactured by bureaucrats in places like Sacramento or Washington DC or Brussels – the new great manufacturing hubs of the fake economy being built around many of today’s green companies (or those still in business). Insider Monkey pointed out that due to recent legislation, automakers will be required to have ZEV carbon credits either by manufacturing ZEV vehicles or by purchasing them from other manufacturers, but the market for them is expected to decline as the Nissan Leaf becomes widely available and Nissan floods the market with their credits.

The ZEV carbon credits and their implications were not loss on Wall Street analysts as the very first question in the earnings call was about them and Elon Musk responded by saying

Yeah, so we’re expecting a decline in the credit revenue for Q2 and then probably fairly significant decline in Q3 and as I said back right now, we’re not expecting anything in Q4. That’s our – I mean, it might be some ZEV credit revenue in Q4, but we’re not accounting on it. I don’t have – I can’t give anymore precision than that at this time.

Later on in the call, he added:

...we will sell them if we can, but as we really anticipate saturating demand for ZEV credits, probably in the third quarter. So maybe that’s not true, but I wouldn’t – for purposes of modeling our financials, I’d recommend assuming zero percent credits in Q4.

Another analyst then noted that if a “5% to 6% gross margin, automotive gross margin excluding the ZEV credits” is in the ball park, “it seems like you need to increase gross profit per unit by something in the \$17,000 to \$19,000 per unit by the end of the year.” Elon Musk then responded by saying cost cutting measures are in place and suppliers have cut costs. but he also acknowledged it will take time

for those “actions to bear fruit.”

And what if those actions don't bear fruit? After all, cost cutting measures have a way of not working out as expected or they have unintended consequences. For example: Think of how many corporate suits decided to move a plant offshore to save money only to see wage costs there or the cost of logistics suddenly rise; or how many times cheaper parts were used, especially by suppliers feeling the squeeze, leading to higher warranty or repair costs or just other headaches.

However and what would really be interesting though would be to model the financials of Tesla Motors not only without the ZEV credits, but also without any of the federal or state subsidies or tax deductions buyers receive to encourage them to take part in the fake economy being built around the company. I have to admit that such modeling would be much harder to do because there is no way of knowing how many one percenters would not buy a Tesla roadster or whatever if it weren't for a generous subsidy or tax break of some kind (I do know of studies showing that not many one percenters in Massachusetts **volunteer** to pay higher tax rates), but we should not assume such breaks will be around forever or in the same form they are in now. The Insider Monkey article even goes as far as to calculate that for a mere \$54.42 a year, you can offset the carbon footprint of a full-size vehicle getting 19mpg-28mpg driven 12,000 miles per year and assuage any guilt about driving something guzzling gas. So no need for a pricey electric car right now (unless you really need a pickup line in liberal Silicon Valley, like “I care about the environment because I drive a Tesla roadster, baby!!!”)

Finally, investors should note that according to **HighShortInterest.com**, Tesla Motors has short interest of 31.08% or half the level of the most shorted stock on Nasdaq. No doubt many of the shorts have been caught in a short-squeeze recently, helping to further drive up TSLA's share price, while the mere presence of so many short sellers means volatility for investors who think the company is a good growth stock rather than a speculative bet at best. In other words, the best advice for any would-be investors thinking of buying into the fake economy being built around Tesla Motors or for that matter, shorts thinking of shorting the stock, is to just stay away until it becomes clear the company can prove it can deliver a bottom line without the help of direct or indirect subsidies or ZEV credits.

*John Udovich is a paid contributor of the SmallCap Network. John Udovich's personal holdings should be disclosed above. You can also view SmallCap Network's complete **disclaimer** and **disclosure**.*

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Delaware mirrors the Golden State with onerous new vehicle rules

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By John Nichols - The Washington Times

Tuesday, January 11, 2011

Attention drivers. Effective with model year 2014, all new vehicles sold in Delaware must comply with draconian California emissions standards that are more stringent than even federal regulations. Delaware won't be the last state where this happens.

The standards were imposed by Delaware Secretary of Natural Resources and Environmental Control Collin O'Mara, who unilaterally amended the state administrative code. These rules will bring "considerable benefits to human health and the environment," asserts Mr. O'Mara, a self-proclaimed "energy entrepreneur" from California.

However, today's cars already emit 95 percent less than their 1970 predecessors, so health and environmental improvements are likely to be minimal. Thus, an additional justification for the edict appears to be the notion that the new standards will prevent "dangerous" global warming. That is equally dubious.

What is certain is that Mr. O'Mara has arbitrarily raised the average cost of post-2013 vehicles sold in Delaware by at least \$1,000. So says an April 2010 New York Times article. Industry experts say the regulations will add "\$3,000 to the up-front cost of the average car or truck," the Public Broadcasting Service notes.

To think all of this transpired without a whimper from Delaware's elected officials or mention in its papers. Mr. O'Mara claims the notification and hearings took place. However, few Delaware residents know nightmarish California air-quality standards have been imposed on them, fewer still understand the edict's costs and almost no one outside the First State realizes what might be on his own horizon.

California standards can hardly be justified even in the once-Golden State. They have their origin in Los Angeles' infamous smog. But that smog occurred because car exhausts were trapped in the San Fernando Valley. Catalytic converters, not the new California emission standards, dramatically reduced smog.

California's newest standards were justified on global-warming grounds; rammed through by an ecologically activist legislature, governor and air-quality-control board; and protected by the U.S. Environmental Protection Agency and the nation's largest block of U.S. senators and congressmen.

But Delaware is not California - and its actions will be costly public relations but irrelevant to the global atmosphere.

Where were Delaware's elected representatives and news media when this happened? Aren't our legislators supposed to represent us? Isn't the media supposed to report vital news and inform citizens of significant events? With average Delaware households earning just \$58,000 annually, shouldn't it be news when an unelected bureaucrat decides to increase the new-car purchase price by up to \$3,000?

Perhaps it's because the centerpiece of Gov. Jack Markell's agenda is "green energy" and anything that makes electric vehicles more price-competitive must be supported, even if science and economics don't justify it. With Fisker Automotive deciding to build electric cars in the state -

supported by major subsidies from U.S. taxpayers - the need to keep the citizenry uninformed is even more compelling.

Whether Fisker ever will build a single car in Delaware is debatable. But the governor has just bet a large chunk of the state's economy on this outcome. Thus the price increases for gas-powered vehicles.

The Nov. 2 elections, continued high unemployment numbers and a dozen states teetering on the brink of insolvency have changed the public's thinking about "green energy" subsidies. But not the governor's or Mr. O'Mara's.

Mr. O'Mara's home state ranks 49th out of all states on how its tax system treats business, according to the Tax Foundation. Its costly and dictatorial environmental regulations are legendary. With established businesses fleeing and entrepreneurs going elsewhere, California's unemployment is stuck at 12.4 percent. Its legislative analyst says the state faces a \$20-billion-per-year deficit for the next six years.

And California is to be the role model for Delaware?

At the very least, a thorough economic study must explore the effects of Mr. O'Mara's edict - and its alleged environmental, health and climate-change benefits must be carefully assessed. These studies will almost certainly confirm that the regulations will kill jobs and family budgets for no health, environmental or economic gain.

We also need a real, public debate - not decisions behind closed doors, by unelected regulators, unreported by the media and without questions from legislators. Ditto for other states, our U.S. Congress and actions by the Environmental Protection Agency.

Perhaps transparency is an antiquated concept, unsuited to governance by regulation. But if so, we might as well get rid of the Delaware and U.S. constitutions because they no longer serve the purpose for which they were ratified.

After all, if elections and constitutions no longer matter, "We the People" can simply let "expert" regulators tell us how to behave, what to eat, how to think and what to drive - and accept a "benevolent totalitarianism."

Then again, maybe people still believe rights come from God - and the government's job is to protect inalienable rights from the dictates of unelected bureaucrats. Indeed, a recent Rasmussen survey says, most U.S. voters still say government's primary purpose is protecting individual rights and freedoms.

But maybe those who hold those beliefs are simply to be disenfranchised now - by the benevolent dictatorial nanny class that always knows what's best for us. The next few years will decide.

John Nichols is an investment adviser.

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Costly regulations have no basis in fact

COMMENTS (158) SIZE: + / - PRINT

By Steve Milloy

Tuesday, January 22, 2013

China's notoriously bad air has recently been especially hard to breathe. It also shows that the U.S. Environmental Protection Agency's (EPA) science is especially hard to believe.

A January temperature inversion over China has caused the air to stagnate and emissions of air pollutants to concentrate, especially over urban areas like Beijing. The air is so bad that it has forced the Chinese government to allow its media to agitate for pollution controls.

The air pollutant receiving the most media attention is fine particulate matter -- soot and dust, or "PM2.5" in EPA-speak.

U.S. communities are out of daily compliance with EPA regulatory standards if local PM2.5 levels exceed 35 millionths of a gram (micrograms) per cubic meter of air in a 24-hour period. Communities are out of annual compliance with EPA standards if their average daily PM2.5 level exceeds 12 micrograms per cubic meter. This latter standard was just tightened from 15 micrograms per cubic meter in December.

As a practical matter, the average level of PM2.5 in U.S. air is about 10 micrograms per cubic meter, and the EPA standards are hardly ever exceeded in the vast majority of the country. Nonetheless, the agency's justification for such strict standards is its assertion that PM2.5 kills people -- a lot of them.

Outgoing EPA Administrator Lisa P. Jackson testified about PM2.5 before Congress in September 2011: "Particulate matter causes premature death. It doesn't make you sick. It is directly causal to you dying sooner than you should." Mrs. Jackson also testified that PM2.5 kills about 570,000 Americans annually, about 25 percent of all U.S. deaths.

In scientific documents, the EPA has repeatedly concluded that any exposure to PM2.5 can kill, and it can kill people within hours or days of inhalation. The EPA has estimated that every 10 microgram-per-cubic-meter increase in PM2.5 increases daily death rates by about 1 percent. That rate is asserted to be higher for vulnerable subpopulations like the elderly or sick.

What should all this mean for China?

On the worst day so far of the ongoing Chinese air pollution event, Beijing's PM2.5 levels peaked at 886 micrograms per cubic meter -- an incredible 89 times greater than the U.S. daily average. Based on EPA risk estimates, we should expect the daily death toll in Beijing to have skyrocketed by 89 percent on a same-day and next-day basis. Remember that PM2.5 essentially causes "sudden death," according to the EPA.

Beijing has a population of about 19.6 million and an annual death rate of a little more than 500 per 100,000. This means that about 100,000 people die annually in Beijing, or about 274 per day.

According to EPA risk estimates, the day the PM2.5 level spiked to 886 micrograms per cubic meter, the daily death toll should have increased to about 518 deaths -- that is, if what the EPA says about PM2.5 is true.

Thus far, however, there is no evidence from China that the EPA's claims about PM2.5 are anywhere close to being true.

The Chinese media have reported on four deaths related to the current air pollution crisis. Two Chinese boys were reportedly killed in a train accident caused by visibility problems. Two other people were apparently killed in a car accident, again caused by visibility problems. Yet there are no reports of a spike in deaths caused by breathing the heavily polluted air.

One Beijing hospital reportedly claims to have experienced a 20 percent to 30 percent increase in admission for respiratory ailments -- but no deaths have been reported or claimed, and deaths are key to EPA's PM2.5 regulations. Even the reported respiratory hospitalizations, to the extent any of them can actually be attributed to poor air quality, would more than likely be due to a genuinely toxic air pollutant or mixture other than mere PM2.5.

The EPA justifies its economically burdensome PM2.5 regulations by claiming that reducing PM2.5

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When the EPA issued its anti-coal Cross-State Air Pollution Rule and Mercury Air Transport Standard rules in 2011, for example, the agency claimed that as many as 320,000 lives would be saved annually, returning about \$290 billion worth of economic benefits every year.

Given that the coal industry is only worth about \$65 billion annually to the economy, shutting it down in exchange for the purported benefits of EPA rules would be an obvious economic no-brainer -- that is, if the EPA's characterization of ambient PM2.5 was even half true.

We have just witnessed a natural and real-life experiment in China of the agency's PM2.5 hypothesis. So far, it seems, the EPA's hypothesis is failing miserably.

While it's possible that the Chinese government is suppressing reports of pollution-related deaths, it's also true that photos, reports and news stories are nonetheless leaking out -- and none support the EPA's claims. The U.S. Embassy in Beijing, which monitors Beijing air quality on a real-time basis, has so far offered no information or evidence that anyone has been harmed, much less killed, by such an extreme air pollution incident.

Congress ought to take this opportunity to investigate what's happening in China while the facts are fresh, and then compare the seemingly benign reality of extreme PM2.5 pollution to the EPA's costly fantasy.

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experiments?

Human trials vainly tried to prove air pollution is deadly

COMMENTS (55) SIZE: + / - PRINT

By Steve Milloy

Tuesday, April 24, 2012

Which do you find more shocking: that the Environmental Protection Agency conducts experiments on humans that its own risk assessments would deem potentially lethal, or that it hides the results of those experiments from Congress and the public because they debunk those very same risk assessments?

JunkScience.com recently obtained through the Freedom of Information Act the results of tests conducted on 41 people who were exposed by EPA researchers to high levels of airborne fine particulate matter - soot and dust known as PM2.5.

If we are to believe the congressional testimony of EPA Administrator Lisa P. Jackson, these experiments risked the lives of these 41 people, at least one of whom was already suffering from heart problems.

Ms. Jackson testified in September before the House Energy and Commerce Committee, "Particulate matter causes premature death. It doesn't make you sick. It's directly causal to dying sooner than you should." Just to clarify what Ms. Jackson meant by "sooner than you should," deaths allegedly caused by PM2.5 are supposed to occur within a day or so of exposure.

Got that? Airborne dust and soot don't make you sick, they just kill you - virtually upon exposure.

Underscoring this notion are the EPA's two most recent rules affecting coal-fired power plants, the Cross-State Air Pollution Rule and the Mercury and Air Toxics Standard, which the EPA claims will prevent tens of thousands of premature deaths per year by reducing PM2.5 emissions.

Further underscoring the EPA's view that PM2.5 kills is more of Ms. Jackson's congressional testimony. At the September hearing, Rep. Edward J. Markey, Massachusetts Democrat, asked Ms. Jackson, "How would you compare [the benefits of reducing airborne PM2.5] to the fight against cancer?" Ms. Jackson said, "Yeah, I was briefed not long ago. If we could reduce particulate matter to healthy levels, it would have the same impact as finding a cure for cancer in our country." Mr. Markey asked her to repeat what she had said. Ms. Jackson responded, "Yes, sir. If we could reduce particulate matter to levels that are healthy, we would have an identical impact to finding a cure for cancer."

Given that cancer kills about 570,000 Americans per year, according to the American Cancer Society, the EPA's claim amounts to PM2.5 being responsible for roughly 25 percent of all deaths in the U.S. annually.

In support of this belief, the EPA has been issuing rules since 1997 to reduce PM2.5 in ambient air, including the Cross-State Air Pollution Rule and Mercury and Air Toxics Standard, which will cost coal-fired electric utilities and their consumers more than \$10 billion per year to implement.

The EPA takes the position that PM2.5 is so dangerous that it needs to set exceedingly stringent regulatory standards. The EPA's PM2.5 air-quality standards are violated when PM2.5 levels exceed 35 micrograms per cubic meter in ambient air during a 24-hour period, or when they exceed 15 micrograms per cubic meter on average over the course of a year - and the EPA is looking to further tighten these standards in 2013.

Returning to the agency's human experimentation, how much PM2.5 did the study subjects inhale in the name of EPA science? One subject was exposed to 750 micrograms of PM2.5 per cubic meter, or more than 21 times the EPA's 24-hour standard. Seven subjects were exposed to levels 10 times greater than the 24-hour standard. No study subject was exposed to less than 35 micrograms per cubic meter. Remember, Ms. Jackson said PM2.5 doesn't make you sick. It just kills you - quickly.

Although PM2.5 is allegedly so deadly, the experiments were stopped in only two cases. One was a 58-year old woman, who EPA experimented on despite her personal medical history of Stage 1 hypertension, premature atrial contractions, osteoarthritis, gall bladder removal and a family history of heart disease (her father had a fatal heart attack at age 57). Her experiment was stopped when she experienced atrial fibrillation. In the other case, the woman experienced no clinical effects, but the EPA nevertheless stopped her experiment after researchers detected a momentary increase in heart rate.

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You might think that the EPA would have shared these "surprising" results with the public and Congress, particularly as they seem to contradict the agency's claims about the lethality of PM2.5. But you would be wrong.

The EPA human experiments were conducted from January 2010 to June 2011, ending more than three months before Ms. Jackson's congressional testimony, which contained no mention of these results - just dramatic claims of PM2.5's lethality.

EPA researchers who conducted the experiments published the case study of the 58-year woman in the government journal *Environmental Health Perspectives* in which they casually disregard the woman's pre-existing health conditions and blame her atrial fibrillation on PM2.5. They also failed to disclose the existence - let alone the results - of the other 40 experiments.

The researchers' conduct is also unethical given that the results of the other experiments - two-thirds of which involved higher PM2.5 levels - contradict their conclusions about the 58-year old woman.

What about the agency's conduct? The EPA's long-established view is that PM2.5 is ultrahazardous, yet it exposed humans to very high and potentially near-instantly lethal levels of a deadly pollutant. In light of the EPA's own safety standard, how far is the agency's conduct from the horrific experiments conducted by the Nazi concentration camp doctor Josef Mengele and the Tuskegee syphilis experiments? What should we make of the agency hiding its results from the public and Congress?

It seems that the only way out for the EPA is to acknowledge the reality that, in fact, PM2.5 is not so bad for you after all.

Steve Milloy publishes JunkScience.com and is author of "Green Hell: How Environmentalists Plan to Control Your Life and What You Can Do to Stop Them" (Regnery, 2009).

CO₂ emissions from China and other Developing Countries will dominate in the future

Data Source: Olivier and Peters (2010) Netherlands Environmental Assessment Agency

