Alysha Webb's ChinaEV Blog

A space that allows me to pontificate on China, alternative fuel vehicles, and anything else I feel like opining about

Is the U.S. government sending electric vehicle technology to China? Sort of.

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The U.S. government is sending alternative fuel vehicle technology to China. Okay, that is a bit strong. But, the lack of funding for companies with such technology, and the strict criteria recipients of loans from the Department of Energy Advanced Technology Vehicles Manufacturing program must meet, is forcing U.S. companies to look to China for funding. The ultimate result is a technology transfer to China forced in part by political pressure. Pretty ironic.

The most recent example is Bright Automotive www.brightautomotive.com , a company in the mid-western state of Indiana that aimed to manufacture plug-in hybrid electric vans for fleets.

Bright aimed to market its electric van to fleets, who would want it because of a lower total coast of ownership, said Bright.

On February 28, Bright closed its doors. Its CEO Reuben Munger and COO Mike Donoughe wrote accusatory letters to the Department of Energy Secretary Stephen Chu. http://www.greencarreports.com/news/1073497_startup-bright-automotive-shuts-down-slams-doe-loan-process

A few excerpts from their letters (copies of which were obtained by me and anyone else who asked Bright): In a Feb 23 letter pleading for the DOE to make a decision on Bight's application for a $314 loan from the DOE: "Unfortunately, irrationality and petty politics have paralyzed your agency at a time America needs you most."

And a Feb 28 letter: "The ineffectiveness of the DOE to execute its program harms commercial enterprise as it not only interfered with the capital markets; it placed American companies at the whim of approval by a group of bureaucrats."

The Bright executives conclude: "Because of ATVM's distortion of U.S. private equity markets, the only opportunities for 100 percent private equity markets are abroad."

"We unfortunately did not aggressively pursue an alternative funding path in China as early as we would have liked based on our understanding of where we were in the DOE process," they say.

Guess they should have grabbed the golden ring when it was offered. And who's to say they won't still turn to China for funding? The company may have closed down, but the technology still exists. Of course the China funding was not a sure thing. What is a sure thing is that obtaining funding from Chinese companies and even the Chinese government seems a bit easier these days than getting a piece of the U.S. government's cash hoard.

The DOE's official response to the question of why the approval process for the Bright loan dragged on so long: "We understand that this is a difficult day for Bright Automotive and their workers. Over the last three years, the Department has worked with the company to try to negotiate a deal that supported their business while protecting the taxpayers. In the end, we were not able to come to an agreement on terms that would protect the taxpayers."

The Department of Energy Loan Program Office (LPO) www.lpo.energy.gov was established to (according to the DOE website) "work with private companies and lenders to mitigate the financing risks associated with building out commercial-scale clean energy projects, thereby encouraging the broader and more rapid growth of the sector." That would seem to indicate some appetite for riskier investments, but as you will read below, the DOE is not about risk taking. It is about getting a return on tax payers' dollars. Fair enough, but not much more than any commercial bank does.

The Advanced Technology Vehicles Manufacturing program https://lpo.energy.gov/?page_id=43 was set up under the LPO in 2007 (yes, that was President George W. Bush) and expanded by President Obama. Of its $25 billion in funds, $8.4 billion has been allocated so far. The recipients of the two largest loans don't seem too risky: Ford Motor Co. and Nissan North America Inc.

Why is it so tough for smaller companies to get a U.S. government loan? Politics plays a big part. The Obama administration has been lambasted for the failure of solar panel maker Solyndra Inc., a company that had obtained a $535 million loan from the Department of Energy in 2009 (under a different program than the ATVM). http://www.washingtonpost.com/solyndra-politics-infused-obama-energy-programs/2011/12/14/gIQA4HllHP_story.html

Now, any company applying for a loan has to meet incredibly high standards. Those standards were in place before the Solyndra failure, but the DOE is for sure applying them extremely vigorously now. And with an election coming up in November, that isn't likely to change.

What are the some of the requirements for getting one of those DOE Advanced Technology Vehicles Manufacturing loan? The DOE does due diligence just as any investor would. And conducts a "competitive review similar to what applicants would find at banking financial institutions." And the company has to be pretty far along with its product already. The loan isn't "intended to finance research and development costs." Indeed, the product has to be ready to produce since the loan can "only be used to reimburse the applicant for (i) costs that are reasonably related to reequipping, expanding, or establishing a manufacturing facility in the United States or (ii) costs of engineering integration performed in the United States.

The Chinese government, and private Chinese companies looking for technology, faces no such conditions. Sure, private Chinese companies want to get a good return on investment. But they are in essence private equity investors with a big appetite for risk. As for the Chinese government, well, it is an authoritarian government after all. It can do what it wishes with its money. Sure, if Beijing chooses to invest billions in foreign companies and the investment is clearly specious, there could be some social unrest. But who can be bothered to protest against some special tax breaks?

When Boston Power www.boston-power.com was also turned down in 2009 for a $100 million DOE loan, it didn't close down. Boston Power turned to China, and landed $125 million in funding in late 2011 from a combination of investors including GSR Ventures www.gsrventures.cn/en/index.html , a Silicon Valley company with ties to China. http://green.autoblog.com/2011/09/22/boston-power-secures-125-million-in-funds-will-move-most-opera/

GSR also negotiated substantial Chinese government support for Boston Power including low interest loans, grants, and financial and tax incentives. Boston Power is building a battery manufacturing plant, R&D center, and an engineering facility in China.

Though Boston Power says it will retain control of its intellectual property, let's get real. How can it do R&D, engineering, and manufacturing in China and not pass that knowledge on to Chinese engineers?

Other U.S. companies are skipping the U.S. government loan application process entirely and looking directly to China for funding. I've written about some of them in this column. The question, then, is what is the cost of losing these companies, and the technology, to China? Time will tell.

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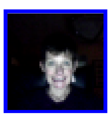
  -  [Alysha Webb]
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