TESLA BOSS CONFIRMS THAT OBAMA ENERGY DEPT AND ELON MUSK PARTNERED TO KILL OFF MUSK COMPETITORS

In Role as Kingmaker, the Energy Department Stifles Innovation To Protect Obama Financiers Musk, Et Al

doe_ford

Of all of the Department of Energy programs intended to advance the green agenda while stimulating the economy, the Advanced Technology Vehicle Manufacturing incentive to spur the development of cleaner, greener automobiles is perhaps the most ambitious. But it has a downside.

The energy department has approved direct loans to Nissan, Ford, Tesla Motors and Fisker Automotive totaling about $8 billion out of a budget of $25 billion. The magnitude of this program dwarfs other DOE campaigns like the $2.4 billion given to battery and electric vehicle component manufacturers and the $4 billion disbursed for “smart grid” projects.

To the recipients the support is a vital and welcome boost. But this massive government intervention in private capital markets may have the unintended consequence of stifling innovation by reducing the flow of private capital into ventures that are not anointed by the DOE.

To understand this apparent contradiction, you have to look at the market from the perspective of venture capitalists looking to deploy investors’ capital and startups looking to attract it.

Venture capitalists evaluate a company on the basis of whether they think it will succeed and generate returns for their portfolios. While this evaluation is a function of many things, one key question is how much more capital the company will need to get its product to market or a liquidity event so that the venture capitalist can see a return. The more capital it needs, the more dilutive it will be to the early investors.

In cleantech, and in particular alternative fuel vehicles, the capital requirements for companies bringing a car to market in significant numbers can be extraordinarily high, reaching into the hundreds of millions of dollars if the company wants to build its own manufacturing facilities.

To a venture capitalist, this capital requirement can be daunting. This is why government financing is so attractive. In the case of the advanced technology manufacturing loans, the DOE steps up for 80 percent of the total amount needed. Private sources fund the other 20 percent. This amounts to free leverage for the venture capitalist's bet, with no downside. Hedge funds historically used massive leverage to generate outsized returns, but if the trade turns against them, that same leverage multiplies their downside and can lead to financial ruin. In the case of the DOE loans or grants, the upside is multiplied and the downside remains the same since the most the equity investor can lose is the original investment.

The proposition is so irresistible that any reasonable person would prefer to back a company that has received a DOE loan or grant than a company that has not. It is this distortion of the market for private capital that will have a stifling effect on innovation, as private capital chases fewer deals and companies that do not have government backing have a harder time attracting private capital. This doesn’t mean deals won’t get done outside of the energy department's umbrella, but it means fewer deals will be done and at worse terms.

According to Earth2Tech, venture capitalist John Doerr commented on this at the GreenBeat conference earlier this month, saying “If we’d been able to foresee the crash of the market we wouldn’t probably have launched a green initiative. Because these ventures really need capital. The only way in which we were lucky I think is that the government stepped in, particularly the Department of Energy. Led by this great administration that put in place these loan guarantees.”

Several sources within startup companies seeking DOE loans or grants have admitted that private fundraising is complicated by investor expectations of government support. None would speak publicly due to the sensitivity of the issue and the ongoing application process.

Aptera Motors has struggled this year to raise money to fund production of the Aptera 2e, its innovative aerodynamic electric 3-wheeler, recently laying off 25 percent of its staff to focus on pursuing a DOE loan. According to a source close to the company, “all of the engineers are working on documentation for the DOE loan. Not on the vehicle itself.” Another highly placed source at Aptera told Wired.com many potential investors wanted to see approval of the DOE loan before committing to invest.

Startup companies that enjoy DOE support, most notably Tesla Motors and Fisker Automotive, have an extraordinary advantage over potential competitors since they have secured access to capital on very cheap terms. The magnitude of this advantage puts the DOE in the role of kingmaker with the power to vault a small startup with no product on the market -– as is the case with Fisker – into a potential global player on the back of government financial support.

As a result, the vibrant and competitive market for ideas chasing venture capital that has been the engine of innovation for decades in the United States is being subordinated to the judgments and political inclinations of a government bureaucracy that has never before wielded such market power.

A potential solution to this problem may seem counter-intuitive. The best way to avoid market distortion would be for the DOE to cast the net more broadly and provide loans and grants to a larger number of companies – which ironically means being less selective. Subject to the existing equity matching requirement, this would allow the private markets to function more effectively in funding a broader range of companies and driving more innovation. Several innovative companies with great potential have been in the DOE pipeline for many months. Perhaps it is time for the DOE to stop playing favorites and start spreading the love.

Wired.com contacted the Department of Energy for comment but did not receive a reply.

*Disclosure: Darryl Siry was the chief marketing officer of Tesla Motors from December 2006 until December 2008 and is a special advisor to Coda Automotive, which has not sought an Advanced Technology Vehicle Manufacturing loan.
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Photo: Ford Motor Co. Energy Secretary Steven Chu addresses Ford employees on June 23, 2009, after announcing the automaker will receive a $5.9 billion loan.

Darryl Siry: How the Energy Department stifles innovation

Sebastian Blanco

Darryl Siry is making the most of his perch at Wired's Autopia to bring interesting discussion topics to the attention of the green car community. The latest: how the U.S. Department of Energy's Advanced Technology Vehicle Manufacturing Program (ATVMP) – intended to help put cleaner vehicles on the road – "has a downside."

The ATVMP has so far given out loans to Ford ($5.9 billion), Nissan ($1.6 billion) Fisker Automotive ($528.7 million), and Tesla Motors ($465 million). This is just about $8.5 billion of the program's $25 billion. As Siry points out, the ATVMP is much bigger than similar green car DOE programs. So, what's the problem? Siry worries that the DOE attention "may have the unintended consequence of stifling innovation by reducing the flow of private capital into ventures that are not anointed by the DOE." Basically, why would anyone invest in Aptera, which has not gotten funding, when they could invest in Tesla instead (when Tesla goes public, anyway). Apply this question to the broader green tech industry, and you can see that start-ups that haven't gotten DOE money won't look nearly as good as those that have, and thus their tech dies on the vine. Or so the theory goes.

We often hear the cliched refrain that the government should not be in the business of picking winners, that the market should decide which technologies make the most sense. Well, that's great except that the market for a long time has decided that gasoline is the winner, and is not all that concerned about the negative effects of its choice. The market has not functioned to bring enough alternative vehicles from start-ups – or cleaner cars from the big players – into production. The government has decided that gasoline's time is over and needs to be replaced. To do that, it needs to pick what it believes are the best alternatives, and thus it funds some technologies (plug-ins) over others (hydrogen, at least the current administration did so). Siry's possible solution to the stifling effect he foresees is "for the DOE to cast the net more broadly and provide loans and grants to a larger number of companies - which ironically means being less selective."

[Siry Departed Tesla On Deposit Fraud Fears That Musk Was A Scammer](https://www.thetruthaboutcars.com/2009/02/siry-departed-tesla-on-deposit-fraud-fears/)

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Gawker reports that Tesla spinmeister Daryl **Siry** left the Silicon Valley startup because CEO Elon Musk (above) was pushing to accept deposits on the Model S sedan. The Model S (a.k.a. WhiteStar) exists only as a prototype. Tesla has no factory or financing with which to build it. When Musk announced that the DOE would approve Tesla's loan application (they haven't and likely won't) and ...