Tesla still isn’t getting enough batteries from Panasonic

The supply of batteries made by Panasonic is still the “fundamental constraint” on the production of Tesla products, the company said Thursday. The electric car maker isn’t getting enough batteries from the production lines that Panasonic operates in the automaker’s Reno, Nevada Gigafactory to keep up with the number of cars and home energy storage products it wants to make. The two companies believe more batteries can be made using the equipment in place at the factory though, Tesla said.

The statement echoes what CEO Elon Musk told investors on a January 30th conference call, when he said that Tesla was “cell-starved for vehicle production,” and that it had to forgo some manufacturing of its home energy products in order to keep pace with Model 3 battery packs. And it shows that despite suffering through “production hell” and “delivery logistics hell,” one long-standing problem still steers the Model 3’s success: the tension between what Tesla needs and what Panasonic can deliver.

Tesla announced in 2014 that it signed a deal with Panasonic to bring the battery manufacturer in-house at the Gigafactory, which opened in 2016. Instead of buying batteries made by Panasonic in Japan and having them shipped around the world, the automaker wanted the cells to be manufactured inside the same building where it planned to build the battery packs for its first mass-market electric car, the Model 3.

This vertical integration, combined with the massive scale

Tesla planned to achieve at the Gigafactory, was supposed to help reduce costs to a level "previously unobtainable in battery cell and pack production," Tesla said in its 2014 announcement. But the the first year of Model 3 production was plagued by the slow pace and inconsistent quality of battery (and battery pack) manufacturing. That led to delays in Tesla's high production goals.

Today's statement came as part of a response to a pair of reports published by *Nikkei Asian Review* suggesting Panasonic is allegedly changing its plans for two of Tesla's Gigafactories. *Nikkei* said that Panasonic "froze" a decision to put an additional $900 million to $1.35 billion of investment into the Nevada Gigafactory in a bid to "reduce its dependence on the automaker." Tesla is Panasonic's biggest customer for electric vehicle batteries, and the Japanese battery maker had already suffered millions in losses due to the slower-than-expected ramp-up of Model 3 production.

While the Model 3 eventually became the best-selling electric vehicle in the world in 2018 despite the company's struggles, Tesla saw a record drop in deliveries in the first quarter of 2019. The drop was partially attributable to the fact that the company turned its focus away from North American and began shipping Model 3s to two new markets: Europe and China. But some Wall Street analysts and skeptics of the company also believe that demand for the Model 3 has been exhausted in North America, in part because Tesla's cars are no longer eligible for the full federal EV tax credit, and since the long-promised $35,000 base version of the car still hasn't shipped.

Panasonic is "watching the demand situation"

This potential problem with demand, which Musk has denied, is reportedly one reason why Panasonic has gotten cold feet, according to *Nikkei*. The battery maker told *Reuters* that it is "[w]atching the demand situation," and "will study additional investments" beyond the current capacity of the Gigafactory.

Nikkei also reports that Panasonic has shifted plans for the Gigafactory currently being built outside Shanghai. Tesla broke ground on its first Chinese factory in January and plans to have production up and running by the end of 2019, as it is key to the company's goal of becoming a major presence in China.

But neither Tesla nor Panasonic has announced whether the Japanese battery maker would make or supply cells at or to the Shanghai factory. Tesla is reportedly in talks with two other Chinese battery makers — Lishen and Contemporary Amperex Technology Co. Limited, or CATL — to provide cells to the Shanghai factory, though.

Still, *Nikkei* reported Thursday that Panasonic will "suspend its planned investment in Tesla's integrated automotive battery and EV plant in Shanghai," and instead "provide technical support and a small number of batteries from the Gigafactory." No sources for these plans were named in the report.

Tesla denies that Panasonic plans to "freeze" any investment
A Tesla spokesperson denied the report that Panasonic plans to "freeze" investment into the Nevada Gigafactory, saying that both companies "continue to invest substantial funds into Gigafactory." They added that Tesla believes there is "far more output to be gained from improving existing production equipment than was previously estimated."

Existing production lines that have been updated since the Gigafactory opened in 2016 are "seeing significant gains," the spokesperson said. This "allows Tesla and Panasonic to achieve the same output with less spent on new equipment purchases." The spokesperson also said this new focus on optimizing existing infrastructure would not affect Tesla's plans to triple the current size of the Gigafactory.

https://www.theverge.com/2019/4/11/18305976/tesla-panasonic-gi

gafactory-batteries-model-3