



By: Tomorrow's Affairs Staff

# Tesla's savings plans start in Mexico



Tesla's future vehicle gigafactory in Mexico appears to be taking shape. Both Tesla and Monterrey, a town in the north of the country near the border with the US, are satisfied. The factory in Monterrey will employ thousands of people and leave part of the profits to the local community.

This will be Tesla's fifth car factory and third outside the US, after Shanghai and Berlin. But, in many ways, it will also be "local": American.

The Company announced its plans to build a factory in Mexico last Wednesday, but did not provide many details.

However, the governor of the Mexican state of Nuevo León, Samuel García, boasted to the New York Times that a Tesla official told him that up to 7,000 workers would be employed, and that the entire investment would cost about 5 billion USD.

This has been a more precise announcement than the previous ones, which ranged from 1 billion USD, up to 10 billion USD in the later stages. For the most part, construction will be quick, and according to information from Governor García, the first cars would leave the factory as early as next year.

Mexican President Andrés Manuel López Obrador confirmed earlier the arrival of Tesla in Monterrey, also pleased with the chance to boost the local economy.

"This will represent a considerable investment and many, many jobs", President López Obrador said at a news conference last Tuesday.

## Mexico profits from the conflict between the US and China

The arrival of Tesla represents another victory for Mexico won from the tensions between the US and China that have long affected the usual supply chains.

Large global car manufacturers, such as Ford

and BMW, and soon General Motors, which have been expanding their production to electric vehicles, are already present in the country.

Tesla is now joining their orientation to produce more cheaply and productively, given lower labour costs, and particularly due to duty-free exports to the US.

It was the proximity to the huge American market that was one of the important factors for Tesla to start building a gigafactory in Monterrey. From there, it only takes 150 miles or a three-hour drive to Texas, which reduces or eliminates supply chain risk.

## Response to pressure from competition

Tesla's entire Mexican operation has been a part of its effort to reduce production costs and at the same time to lower the price in a market that, post-pandemic, has not been growing at the pace manufacturers would like.

Although the company has not confirmed it, the new factory in Monterrey will produce a model that will be cheaper than the current most popular Model 3, which is sold in the US starting at 43,000 USD.

Tesla has long been under pressure from competitors, such as Ford, VW and Korean manufacturers, whose electric models are significantly cheaper. However, Tesla's response is still awaited.

The Mexican investment, therefore, could be Tesla's main response to the competition's lower prices. Particularly if one takes into account the somewhat surprising announcement of the company at the beginning of the year that it will lower the prices of some models by as much as 20%, which was a major challenge for the competition.

"In this industry, in this business, you survive or you die based upon the ability to manage

your costs”, said Tesla's Chief Financial Officer Zach Kirkhorn at the meeting of Elon Musk and his managers with shareholders last Wednesday.

The Mexican operation is in a function of this production cost management, precisely because of lower wages, proximity to the market, and duty-free treatment in the US.

A significant motive for Tesla's moving to Mexico was certainly the huge US government subsidy programme for the green industry.

Based on the Inflation Reduction Act from August last year, as much as 391 billion USD has been designated for green industry subsidies and projects that would lead to a reduction of harmful gas emissions by half by 2030.

Similar to other manufacturers, Tesla will be able to count on these subsidies at its factory in Monterrey, since the production of electric vehicles and batteries in Mexico has been approved for grants, although not for cars produced in Asia or Europe.

## Mexico is the right place to save

Elon Musk and his managers are clearly in the process of implementing a major cost-cutting strategy, and the mega-factory in Mexico resembles confirmation that they are moving in that direction.

According to Tesla CFO Kirkhorn, the company intends to cut costs by as much as 50% in the next generation of cars.

For such plans, Mexico is a multi-favourable destination for production, both due to financial and logistical benefits, and as a very potent raw material base for battery production.

With the arrival of Tesla, and other EV manufacturers before it, Mexico could get a boost for its development plans regarding the exploitation of lithium in the northwest of the country and its processing into car batteries.

It would relieve manufacturers from the headaches of supply chain risks, which have severely shaken the auto industry globally in recent years.

Tesla's plans for the future, outlined by Elon Musk at investors' day last Wednesday, are very ambitious and foresee selling as many as 20 million cars a year by 2030.

That would be twice as much as the current global sales leader, Toyota. Tesla's ambitions are certainly related to its plans to reduce costs, increase competitiveness on the market, and to launch new models, which investors have been awaiting for a long time.

Musk promised them that the goal he has set for 2030 would be achieved by launching 10 new models by that deadline.