

Business

How Tesla defined a new era for the global auto industry

Projects with Mercedes, Toyota showed clash of cultures

FRANKFURT/BEIJING/DETROIT: Tesla Inc's rapid rise to become the world's most valuable carmaker could mark the start of a new era for the global auto industry, defined by a Silicon Valley approach to software that is overtaking old-school manufacturing know-how.

Tesla's ascent took many investors by surprise. But executives at Daimler AG, the parent company of Mercedes-Benz, had a close-up view starting in 2009 of how Tesla and its chief executive Elon Musk were taking a new approach to building vehicles that challenged the established system.

Daimler, which bears the name of the man who invented the modern car 134 years ago, bought a nearly 10 percent Tesla stake in May 2009 in a deal which provided a \$50 million lifeline for the struggling start-up.

That investment gave Mercedes engineers an inside view of how Musk was willing to launch technology that wasn't perfect, and then repeatedly upgrade it, using smartphone style over-the-air updates, paying little regard to early profitability. Mercedes engineers helped Tesla develop its Model S luxury sedan in exchange for access to Tesla's partially hand-assembled battery packs, but in 2014 Daimler decided to sell their stake amid doubts Tesla's approach could be industrialized at scale.

Tesla would go on to pioneer new approaches in manufacturing, designs in software and electronic architecture which enable it to introduce innovations faster than rivals, leaving analysts to draw comparisons with Apple. Three people directly involved with the Mercedes side of the collaboration said the brief partnership highlighted the collision of old and new engineering cultures: the German obsession with long-term safety and control, which rewarded evolution, and the Silicon Valley carmaker's experimental approach which

embraced radical thinking and fast innovation.

"Elon Musk has been walking on the edge of a razorblade in terms of the aggression with which he pushes some technologies," said a former Mercedes engineer who worked on the partnership. By contrast, Mercedes and other established automakers are still not comfortable about releasing a new technology, such as partially automated driving, without years of testing.

Tesla did not respond to requests for comment. Investors favor the Tesla model, in an industry undergoing fundamental and dizzying change even though the US carmaker will face an onslaught of competing electric vehicles from established automakers during the next few years. They are putting their money on Musk and his company, even though Mercedes-Benz alone sold 935,089 cars in the first half of 2020, dwarfing the 179,050 delivered

by Tesla in the same period. Today, Tesla is worth nearly \$304.6 billion, more than six times Daimler's 41.5-billion-euro (\$47.7 billion) market capitalization.

Old school automobile technology overtaken

Cultural collision

Daimler and Tesla began collaborating after Mercedes engineers, who were developing a second-generation electric Smart car, bought a Tesla Roadster. They were impressed by the way Tesla packaged batteries, so arranged a visit to Silicon Valley to meet Musk in January 2009 and ordered 1,000 battery packs. The collaboration expanded. At a joint press conference in the Mercedes-Benz museum in Stuttgart in May 2009, Tesla said the partnership would "accelerate bringing our Tesla Model S to production and ensure that it is a superlative vehicle".

For its part, Mercedes wanted to use Tesla's batteries to power an electric version of its compact



SHANGHAI: Tesla Inc CEO Elon Musk dances onstage during a delivery event for Tesla China-made Model S cars in Shanghai. — Reuters

Mercedes-Benz B-Class. The Tesla Model S would hit the road in 2012. An electric B-Class, arrived in showrooms two years later. Despite having batteries supplied by Tesla, the Mercedes had a shorter operating range after Daimler engineers configured the B-class more conservatively to address their concerns about long-term battery degradation and the risk of overheating, a second Daimler staffer who worked on the joint projects told Reuters.

German engineers found that Tesla engineers had not done long-term stress tests on its battery. "We had to devise our own program of stress tests," the second Daimler engineer said. Before starting production of a new car, Daimler engineers specify a "Lastenheft" - a blueprint laying out the properties of each component for suppliers. Significant changes cannot be made once the design is frozen. "This is also the way you can guarantee that we will be profitable during mass production. Tesla was not as concerned about this

aspect," the second Daimler source said.

Daimler's engineers suggested the underbody of the Model S needed reinforcing to prevent debris from the road puncturing a battery pack, the first Daimler engineer said. To quash doubts about safety and security, following a series of battery fires, Tesla raised the ride height of its vehicles, using an over-the-air update, and a few months later, in March 2014, said it would add a triple underbody shield to new Model S cars and offered to retrofit existing cars.

Musk was able to make adjustments quickly thanks to Tesla's ability to burn through more cash during development. "At Mercedes you can make such adjustments every three years at best," the engineer said. The Model S, a four-door electric sedan would go on to outsell the flagship Mercedes-Benz S-Class in the United States in May 2013, and outstrip S-Class deliveries globally by 2017. — Reuters

Santander head: EU deal paves way for cross-border mergers

MADRID: The European leaders' agreement on a massive stimulus plan for their coronavirus battered economies should help kick-start cross-border consolidation in Europe and complete the European banking union, Santander Chairman Ana Botin said.

"What was agreed yesterday (in the early hours of Tuesday) means the opportunity and the probability that we do get a banking union and cross-border consolidation is much higher," Botin told Reuters in a Zoom call. "It will require changes, but I think those changes are much more likely today than they were yesterday," Ana Botin said.

Santander is the eurozone's second-biggest lender in terms of market value. Remarks by Botin echoed comments from European Central Bank vice-president Luis de Guindos, who on Monday said that he expected banks to engage in both national and cross-border consolidation within weeks or months.

Consolidation is seen as inevitable among banks in the eurozone to gain scale, but low valuations and different legal frameworks around countries are hampering any such transactions. Profitability across the euro zone bank sector is low and an economic recession in the region is expected to further dampen the banks' prospects, partly due to also higher loan-loss provisions related to the impact from COVID-19 outbreak.

"What has happened yesterday on the agreement in Europe is a clear stepping stone for the banking union in Europe. And banking union and free transfer of euros across countries is a pre-requisite for cross-border euro mergers and consolidation," Botin said. "I do think it's the time. I do think European banks need scale," Botin said, adding that for now Santander was not interested in taking part.

"As of today, no, with the current rules, no. When the rules change who knows. Even then I think there are others who are more likely to be ahead of us," she said. The agreement between EU leaders paved the way for the European Commission to raise billions of euros on capital markets on behalf of all 27 states, an unprecedented act of solidarity in almost seven decades of European integration.

"It is really important for Europe, I think it is a game changer, this is really a turn in the road, in the right direction," Botin said, adding that this "will be seen in time as key step in the construction of Europe." Botin also said that the agreement had diminished and averted the chances a sovereign risk and fragmentation problem in Europe and that the person, the country, who had taken the lead to make this possible was (Chancellor Angela) Merkel and Germany. "We could have hoped for something bigger but not for something better," she said. — Reuters

Land rights battle inches Kenyan rice farmers closer to title deeds

NGURUBANI: When Wilson Kariuki's three younger children finish high school, the Kenyan rice farmer will not have to worry about paying to send them to a university far from home, as he did with his two eldest. Instead, they can attend a new university being built in their home village of Ngurubani, central Kenya, on 100 acres (40 hectares) that the farmers on the Mwea Irrigation Scheme now own after winning a case against the county government in April.

The rice farmers' victory is a sign of the rising awareness of land rights that is driving small-scale farmers around Kenya to demand ownership of the land they live and work on, farmers and land rights activists say.

"This land will benefit our children," said Kariuki, 55. "When they study at a university which is based here, they will help our community solve problems which have been troubling us for years - like the issue of land rights." The farmers had donated portions of their farmland in 2017 for the construction of a medical research center to study water-borne diseases, Kariuki explained.

But the project stalled when Kirinyaga County officials presented the farmers with a title deed that

claimed the land as government property. After lobbying by farmers, local leaders and grassroots groups, the National Land Commission (NLC), an independent government body that manages public land, declared the county government's title illegal and issued a new one to the farmers.

But the battle is not over yet, said Kariuki. He and the more than 50,000 farmers on the irrigation scheme now want the national government to issue them with title deeds to their individual plots of land. With land titles, the farmers would have autonomy from the National Irrigation Authority (NIA), which manages the plantation and dictates what the farmers can grow, how much they produce and what they sell it for.

"Title deeds will help farmers make decisions over their land," said Stephen Mururia, a human rights defender with the Mwea Foundation, a local lobby group.

"For instance, they can decide to switch from rice growing to a more profitable crop," he told the Thomson Reuters Foundation. Previous efforts to convince the government to give the farmers individual title deeds - through meetings with officials and demands from local leaders - always



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end with promises that are never met, Kariuki said. Daniel Nzonzo, head of corporate communication at the NIA, said in a phone interview that "the issue of rice farmers getting title deeds is being considered by the government through the NLC."

"This matter is already with the Senate, who will debate it," he added, without giving a timeline for when the debate might take place.

Gaining control

Located some 100 kilometers (60 miles) northeast of the capital Nairobi, the 30,050-acre (12,160-hectare) Mwea plantation is the largest rice-growing irrigation scheme in Kenya,

with a population of about 50,000. It produces about 90,000 tons of rice each year, or 80 percent of the country's rice supply, according to the National Irrigation Authority.

Each farming family in Mwea has the right to live and work on up to four acres (1.6 hectares) of land under a 99-year leasehold that started when the plantation was established in 1954, according to independent land rights researcher Gladys Gichobi. As the farmers continue their efforts to gain legal ownership of that land, they can look to cases of small-scale farmers in other parts of Kenya who have successfully pushed for title deeds to land they lived and worked on for decades. — Reuters

Argentina's \$65bn debt deal closer despite standoff

BUENOS AIRES/LONDON/NEW YORK: Argentina and its creditors are likely to find a way to seal a \$65 billion debt restructuring deal, analysts said, despite a standoff after bondholders joined forces to reject a government proposal and put forward one of their own.

Three major creditor groups on Monday unveiled a joint counteroffer, the first time the trio had unified, lowering their demands but hardening opposition to a "final" offer the government made in early July. The new proposal closed the gap between two sides' proposals to within around 3 cents on the dollar in terms of valuation, which most said should be bridged in last-ditch talks. The two sides are currently working toward an Aug. 4 deal deadline.

"We expect that negotiations in coming weeks should ultimately lead to an agreement, given the authorities' appetite to avoid a chaotic default that would put the economy in further pain," Morgan Stanley said in a note. The investment bank calculated the creditors' new proposal was valued at around 55.8 points at a 10% exit yield, versus 52.4 points for the government's offer, and that the two sides were "inching closer" to an deal even if more

talks were needed. Argentine over-the-counter bonds rose 0.6% on average on Tuesday after having edged down on Monday.

'Where the rubber meets the road'

Argentina's President Alberto Fernandez and Economy Minister Martin Guzman, who has led the negotiations, have maintained that the government offer was the maximum effort the recession-hit country could make after slipping into default in May. "I trust that the creditors understand that we are making a huge effort with the offer we made and that it is the most we can do," Fernandez said during a video conference on Tuesday hosted by the Americas Society/Council of the Americas.

He added it was impossible to do more with poverty levels at 40 percent, adding his government had inherited a country already in a "very complex situation" of recession and unsustainable debt.

"When we came into government in December, it's like Argentina was in intensive care and with an automatic respirator. And then the pandemic came and the respirator was gone. So now we face the situation that we face," he said. Citi analysts said that the government's position may soften in coming weeks and that the new counterproposal was a "step in bringing together the two positions."

"The authorities have stated that the amended proposal presented in early July will not be modified, but we believe this is mostly a negotiation tactic," the bank added.

A creditor source with knowledge of the talks said that there was confidence both sides could move to find a middle ground between the two pro-



BUENOS AIRES: In this file photo, men walk past Argentina's Economy Ministry building during the lockdown imposed by the government against the spread of the new coronavirus, in Buenos Aires. — AFP

posals. "It is now really down to where the rubber meets the road. There is a tiny economic difference between the two proposals. There will have to be give on both sides," the person said, asking not to be named.

The person added that getting a deal done without litigation was in everyone's best interest and that an agreement could be reached in a matter of days if the government was flexible. "If both sides are willing to move, they can make a deal quickly," the person said. — Reuters