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How Trump will hit Tesla’s bottom line

By David Ferris
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Donald Trump is vaporizing an easy source of profit for his onetime “first buddy” and campaign donor Elon Musk.

We’re talking about America’s opaque but lucrative system of emissions credits — a windfall for Tesla that Trump has been busy dismantling. The president erased

the biggest market for the credits in June when he signed a bill to revoke California's vehicle emissions standard.

Republicans then doubled down in the megalaw by removing any fines against automakers that don't meet fuel economy standards.

The consequences may start weighing on Tesla as soon as Wednesday when the company reports its latest financial update.

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Environmentalists aren't the only ones coming to this conclusion.

For years, financial analysts have known that these emission-trading systems, which were designed to improve air quality while giving automakers flexibility, are a windfall for Tesla.

Because it produces only electric cars, Tesla can sell its zero-emissions credits to other automakers who fall short of pollution standards. In many past quarters, Tesla would have shown a loss without the money from those credits. Instead it reported profits, forming the basis for the company's sky-high market value.

For example, in the second quarter of last year, Tesla's \$890 million of regulatory credits made up 63 percent of its profit.

The impact this year is even higher. In the first three months of this year, with credits removed, Tesla's \$409 million in profits would have turned into a \$186 million loss.

And now, "going forward, that source of extra earnings is going to be slim to none," Pavel Molchanov, an analyst at investment bank Raymond James, said in an interview.

CALIFORNIA'S CLEAN CAR CREDITS ARE CRITICAL

The biggest hit to Tesla, watchers say, will be the end of California's market for clean-car credits (though the state is appealing Congress' repeal of its clean-car program).

No one knows how much money Tesla makes from California's market — or any other market — for emissions credits, since the prices aren't transparent like a stock market's.

But Tesla's competitors probably would have paid the electric automaker a lot. The penalty for failing to meet California's rules was \$20,000 *per individual car*, and the per-car requirements were poised to ratchet up dramatically starting with models going on sale later this summer.

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For automakers, an appealing way to cheat — er, not comply — would be to stop paying millions of dollars to Tesla for its fuel-economy credits.

With Trump’s new rules, an automaker’s “willingness to pay would soften substantially,” said James Saltee, an economics professor at the University of California, Berkeley.

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