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## Chinese Car Maker's Favorite Passenger: Uncle Sam

By COLUM MURPHY

SHANGHAI—A Chinese car maker is setting up shop in the U.S., with small ambitions but a clear goal: Get the federal government to subsidize the sales of the company's American-made electric buses.

**BYD Co.**, an electric-car and battery maker that counts Warren Buffett among its investors, will open an electric-bus assembly facility in Lancaster, Calif., on Wednesday.



Associated Press

California Gov. Jerry Brown, left, sat in a BYD electric bus during a visit to the company's headquarters in Shenzhen, China, this month.

The company's U.S. expansion won't create many jobs yet. The new plant will employ a few dozen people at the outset, according to Stella Li, BYD senior vice president. "We are starting small," she said.

But the benefits of BYD's move will be immediate, allowing it to sell its buses to local transit companies at a huge discount—with the federal government picking up the rest of the tab.

BYD spokesman Micheal Austin said the company's U.S. production facility meets "Buy America" procurement guidelines, enabling its customers to tap federal subsidies that cover up to 80% of the cost of the electric

buses they buy. The availability of government aid was one of the main motivations behind BYD's move to the U.S., he said.

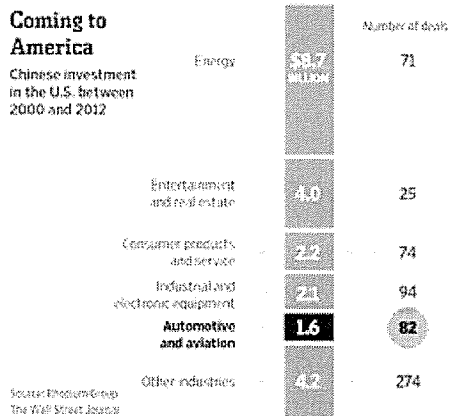
The Federal Transit Administration said transit agencies, state departments of transportation and other public entities are eligible for such grants.

Buy America provisions are designed to ensure that government-sponsored transportation infrastructure projects in the U.S. use products made in the country. When it comes to buses, the rules stipulate that U.S.-made parts should account for more than 60% of the cost of all components. Final assembly must take place in the U.S.

Long Beach Transit, an agency serving a cluster of communities south of Los Angeles, said last month it would buy 10 BYD electric buses for \$12.1 million, and spend a further \$2 million to design and build a charging facility for the vehicles.

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About half of the project's total cost will be funded through a federal grant, the agency said. The rest will be funded with state bond funds that were approved by California voters in 2006, and a smaller grant. The deal complies with Buy America requirements, Long Beach Transit officials said.



The BYD buses—which should be in service a year from now—will be Long Beach's first all-electric vehicles. The agency is employing different technologies as it phases out its diesel fleet. Right now, about 70% of the agency's fleet of 223 buses is made up of hybrid gas-electric vehicles and compressed-natural-gas vehicles.

"This is our ticket to the U.S. market," BYD's Ms. Li said, referring to the Long Beach deal. "But the hard work is just starting."

Harry Chen, a transportation analyst at securities firm Guotai Junan International, expressed skepticism about BYD's U.S. expansion plans. "It's kind of a marketing gimmick to publicize its electric vehicles there, and I

don't expect the investment to pay off in the near term," he said. "The plan is more symbolic than substantive to the company's electric-car push."

"It makes more economical sense to produce in China and have the products exported overseas," he said.

BYD's Mr. Austin said assembling a bus in the U.S. would cost \$100,000 more than doing so in China. He said an electric bus could sell for up to \$800,000. "But the economic value of having a plant there far outweighs the costs," he said, since the buses would qualify for government funding.



Agence France-Presse/Getty Images

The market for electric buses in the U.S. is still minuscule—Ms. Li estimates that fewer than 100 buses a year are sold nationwide—and the majority of those are for demonstration or experimental purposes.

Only a handful of U.S. cities operate all-electric buses—as opposed to hybrid-electric ones—as part of their transit networks, according to the American Public Transportation Association. San Antonio's Via Metropolitan Transit this year rolled out three all-electric buses made by Proterra Inc., which is based in

Greenville, S.C.

Ms. Li said she expected BYD to deliver between 200 and 300 electric buses to customers in the U.S. by the end of next year. BYD also is targeting private companies such as car-for-hire firms and institutions such as universities to supply electric shuttle buses, she said.

Shenzhen-based BYD bought two premises in Lancaster, located 70 miles north of Los Angeles. The main bus assembly will take place in the location previously occupied by recreation-vehicle maker Rexhall Industries Inc. Ms. Li said the Lancaster plant, which officially will open May 1, is expected to produce 1,500 buses a year and generate up to 1,500 jobs when at full capacity.

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BYD said the battery of a bus makes up more than half the total cost. The company said its batteries are assembled in China but use "a number" of important components that are manufactured in the U.S. The bus's two in-wheel motors would also be made in China, Mr. Austin said. Body manufacture and assembly would take place in the U.S., he said.

Mr. Austin said he believed there is a market for electric buses—even without incentives. An electric bus's total cost of ownership over a 12-year period is lower than for a diesel-fueled one, he said.

But Michael Beck, a senior executive adviser at consulting firm Booz & Co., said low current and future natural-gas prices in the U.S. likely would make natural gas-powered buses, or possibly natural gas-powered hybrids, the eventual winners for transit-bus applications. "Electric buses may be able to compete against conventional diesel buses. But they will not be able to compete against natural-gas-powered buses, because the cost of natural gas is less than one-third the cost of diesel," he said.

Kevin Lee, a spokesman for Long Beach Transit, said the agency chose to buy BYD buses because they "made the most sense for Long Beach Transit and our community in many respects." The buses, which will serve an eight-mile route that passes through downtown Long Beach, come with a battery that only has to be charged once a day, he said—an option that rival electric-bus makers didn't offer. BYD's models charge overnight, so if the city were to lose power during the day, the buses could still run, he noted.

In addition to conventional and electric vehicles, BYD produces batteries for mobile phones and solar-power storage equipment. In China's fast-growing passenger-car market, the company has a market share of about 3.2%, placing it just outside the top 10, according to Macquarie Research.

The company last week posted a first-quarter net profit of 112.4 million yuan (\$18.2 million), more than four times what it made a year earlier, thanks to rising car sales and narrower losses from the company's solar operations. Revenue rose 9.8% to 12.88 billion yuan.

MidAmerican Energy Holdings Co., a unit of Mr. Buffett's Berkshire Hathaway Inc., owns about 10% of BYD—the billionaire investor's highest-profile Chinese investment.

—Tamara Audi in Los Angeles, Joanne Chiu in Hong Kong and Khalid Khattak in Washington contributed to this article.

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