



Siry Slams DOE Loan Program For “Stifling Innovation”

By Edward Niedermeyer on December 1, 2009



Former Tesla PR honcho Daryl Siry lays into the Department of Energy’s Advanced Technology [Vehicle Manufacturing Loan](#) program (ATVML) at Wired’s [Autopia blog](#), taking the \$25b program to task for “stifling innovation.” At its core, his argument is a simple one:

Startup companies that enjoy DOE support, most notably Tesla Motors and Fisker [Automotive](#), have an extraordinary advantage over potential competitors since they have secured access to capital on very cheap terms. The magnitude of this advantage puts the DOE in the role of kingmaker with the power to vault a small startup with no product on the market -- as is the case with Fisker — into a potential global player on the back of government financial support.

As a result, the vibrant and competitive market for ideas chasing venture capital that has been the engine of innovation for decades in the United States is being subordinated to the judgments and political inclinations of a government bureaucracy that has never before wielded such market [power](#).

All of which sounds very TTAC... in fact, our lengthy Bailout Watch series [began](#) with a similar analysis of the ATVML program (albeit with a Detroit-focused twist). Unfortunately, Siry’s intentions in this case are questionable... as are his conclusions.

At the very bottom of his editorial, Siry reveals himself to be a "special advisor to Coda Automotive," [the EV startup](#) born from the ashes of Miles Electric [Vehicles](#). That Coda has not sought an ATVML handout (because all its manufacturing is done in China) is presumed to give Siry a free pass on conflict-of-interest questions, but Siry's critique relates directly to the private capital market as well. Siry writes:

The proposition is so irresistible that any reasonable person would prefer to back a company that has received a DOE loan or grant than a company that has not. It is this distortion of the market for private capital that will have a stifling effect on innovation, as private capital chases fewer deals and [companies](#) that do not have government backing have a harder time attracting private capital. This doesn't mean deals won't get done outside of the energy department's umbrella, but it means fewer deals will be done and at worse terms.

Translation: Coda can't raise funds without DOE backing, a reality the company petulantly hinted at in [the most recent post](#) on its corporate blog. There, the company lashed out at analyst suggestions that DOE loans would be best spent on established automakers, and now Siry is bashing the DOE's "kingmaking" of "small startups with no product on the market." So which is it? The answer can be found in Siry's conclusion:

A potential solution to this problem may seem counter-intuitive. The best way to avoid market distortion would be for the DOE to cast the net more broadly and provide loans and grants to a larger number of companies — which ironically means being less selective. Subject to the existing equity matching requirement, this would allow the private markets to function more effectively in funding a broader range of companies and driving more innovation. Several innovative companies with great potential have been in the DOE pipeline for many months. Perhaps it is time for the DOE to stop playing favorites and start spreading the love.

Give out money to more firms, less selectively. What a plan. But if Siry is suggesting that Coda Automotive represents the kind of "innovation" being "stifled" by the ATVML program, he's able to see far more innovation in selling an electrified Chinese Hafei [sedan](#) with 100 miles of range for \$45k than we do (he doesn't explicitly, preferring Aptera as a poster child for stifled innovation). The reality is that the EV sector is crammed with as many [hucksters](#) and wannabes as legitimate innovators, and "spreading the love" is more likely to result in wasted investments. In theory we agree that DOE "kingmaking" distorts the market, and elevated some questionable firms to near-player status... but interpreting those results as a reason for the DOE to be "less selective" with its lending makes even less sense. Unless, of course, you work for a firm that might benefit from lowered loan standards.

As a lesson in the ATVML's unintended consequences, Siry's editorial is dead-on. As a roadmap for future DOE policy, however, it comes up way short.

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INcarguy

December 1st, 2009 at 2:38 pm

I don't know Siry from Adam, but I can tell you, he's spot on. Just because he stands to gain (potentially) from a more "loving" DOE strategy doesn't mean he's wrong about one central point. They are "kingmaking." \$25B program, and they've only given out 8.5B of it. The DoE is completely erratic, telling some companies they "passed" certain viability tests, then coming back months later asking for further documentation. Asking ridiculous technical specifications of some, while greenlighting other companies whose vehicles only exist in their dreams. I am sure that there are plenty of "wannabees" trying to suck on the government's teat, but I can tell you for certain that "real deals" are going to die a slow and painful death because of the DoE allowing politics to decide who gets the \$\$\$.

Believe me, they can't raise equity in the US without that loan, it just won't happen. However, I'm guessing China will come knocking on their door if they see a chance to invest in a viable business plan. And yes, take everything I've said with a grain of salt because I stand to gain from the DoE approving at least one of these loans. Having seen the inside of the process, I can assure you, it has very little to do with the viability of a business plan and, like everything else, it's quite political.

**gslippy**

December 1st, 2009 at 2:48 pm

The Volt also falls into this category, but the market will ultimately determine its fate.

While he may be correct that spreading the love would be more fair, government handouts aren't the only key to success. In fact, I believe that government handouts tend to enslave its recipients and cause more failure than success. Just look at the US welfare system, GM's executive pay scale mess, or the Faith-Based Initiative. All of these recipients have paid a heavy price (their freedom) for being on the government dole.

So I'd suggest future EV companies raise their own capital and make money the old-fashioned way.

**psarhjinian**

December 1st, 2009 at 3:02 pm

In fact, I believe that government handouts tend to enslave its recipients and cause more failure than success.

The system that allows you to make the comment, the internet and the world-wide web, are largely the result of government funding specific ventures, despite commercial systems being available at the time (remember CompuServe or GEnie?).* So are a lot of things that you use or benefit from daily and often don't think about because they work quite well.

The government works as a lender and source of venture capital for enterprises that have a long-term payoff (where “long term” is beyond the pain threshold of the increasingly short-term ROI expectations of modern VCs), are threats to existing and well-established players who would knife such a venture in a back, and/or would be perennial loss-leaders but are necessary to a functioning society.

The market works well enough where there’s immediate return on investment and little or no barriers to innovation erected by existing oligopolies within the market. EVs meet neither of those criteria despite being something that would greatly benefit society as a whole. So, do we wait until the market makes EVs profitable for a large-scale player, or do we get ahead of the game?

Try to think about the kind of “market conditions” that would make EVs appealing to maggie VCs; now think about what those conditions would mean for society as a whole.

** CompuServe, IBM, GE and the Bells would have killed the nascent Internet in it’s cradle, if they could. “The market” has shown a lot of hostility towards innovation when it threatens the big players.



Daanii2

December 1st, 2009 at 4:46 pm

I disagree. I know of no example where a government has ever successfully invested in industry. It is true that government funding of the ARPAnet helped the Internet get started. But that was funding of research. Nothing like venture funding of a business. The Internet was built by private capital. As it should have been.

Siry points out the problem well. We now have “venture capitalists” at the Department of Energy picking winners to give \$25 billion to. With no experience, these government employees also have no accountability. Not a recipe for success.

My solution to the problem? Disband the program. It’s not going to help us get to [electric](#) cars. It’s just rewarding a few lucky companies. At our expense. For me at least, no thanks!



Darryl Siry

December 1st, 2009 at 4:24 pm

Edward – I think you are reading too much into my disclosures. While it is important for readers to know of existing and past relationships that might introduce bias to my writing, I assure you that the positions I develop in the articles I write for Wired are independently derived and not vetted with any of my clients or contacts beforehand.

As for the "solution" I suggest at the end of the article, it may be sub-optimal, but we can't go back in time and change the overall approach. We are where we are, and I am just suggesting that taking a broader portfolio approach will distort capital markets less than trying to pick winners.



Jerome10

December 1st, 2009 at 5:26 pm

Damn. I agree!



Durishin

December 1st, 2009 at 6:04 pm

But, if the government fails to give long-term tax breaks on R&D *and* controls the loans to "innovative" companies, then the government *is* stifling innovation.

Which, of course, it must as government is consensus driven and innovation is driven by experiments on the edge of knowledge; antithetical to consensus.



frodo_17

December 1st, 2009 at 6:42 pm

psarhjinian is right. Governments have and continue to stimulate innovation throughout the world. We are able to have modern communication systems and ultimately the internet because the US government decided that it could not afford the USSR having an advantage in space exploration. We developed (with many private companies participating) the rocket technology to put vehicles (satellites) into space. That was sponsored by the US taxpayer but it has paid for itself many times over. There are many similar examples. Nearly every major technological advance has been government sponsored at one point or another. EVs are no different.

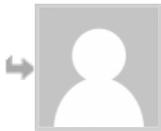


gslippy

December 1st, 2009 at 7:59 pm

The difference between your examples and this situation is that modern communications and space travel were originally developed for *the government’s own needs (i.e, national defense)*, **not** with commercialization in mind, and certainly not with profitability as a goal.

All we’re talking about here is corporate welfare for startup EV companies. Frankly, the government has no need for EVs, and anything linking government handouts is bound to have a political component.



Daanii2

December 1st, 2009 at 8:39 pm

Gslippy is right about this one.

The space program, in my opinion, was a waste of money. As was the Manhattan Project in World War II. If you look at the results and the costs to get them, only a government would ever call them a success.

Governments do fund a lot of basic research, and some of it has been helpful. But the idea that the Internet and modern communications came from the space program, or even any government program, seems false.



psarhjinian

December 1st, 2009 at 11:28 pm

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I’d say the government does have a need for EVs, and that said need is being realized ahead of the “commercially viable” point in the ROI curve. That need is to have an alternate personal mass-transit solution ready *before* we hit the next oil crisis.

...and anything linking government handouts is bound to have a political component.

This is true. It’s also true in the market, only they don’t use quite the same verbiage: instead of it being based on the party-based nepotism, it’s based on the wants and needs of the cartel, who will develop something that serves their interest first, regardless of what that does to innovation or the best interests of the consumer, the environment, or the economy.

Governments do fund a lot of basic research, and some of it has been helpful. But the idea that the Internet and modern communications came from the space program, or even any government program, seems false.

It doesn't matter how it “seems”, it's how it really is. The internet would not have happened without government fostering. Any technology that comes out of defence or the space program would not have happened without that backing because that kind of technology is not in the interests of the market. So is a lot of what happens in medicine, outside of commercial wunderkind like Viagra.

The Internet is the easiest example: it was developed to allow academia, government and the military to communicate, and was freely expanded to allow any “member” to participate. The private equivalents at the time (AOL, GEnie, CompuServe, Prodigy) were islands that locked their users up wherever possible, and had to be dragged kicking and screaming into the internet era.

Want another example: power generation. In parts of the world where it sees a lot of foresight and planning, it does fairly well (France comes immediately to mind). Where it's deregulated and left to the market, the infrastructure is badly underbuilt and consumers suffer with high costs and poor service because the providers have no interest in looking at the long term.

I'll admit there are many things the government does badly, and those are generally where the government gets involved in establishing production and eligibility benchmarks for the short term. Other than that, though, the track record and fostering and funding innovation on average is actually pretty good.

I'm always amazed that there's a very focused lens turned on government, while we let just about every other entity of large economic power more or less off the hook. It's not like any of them couldn't (or don't already) oppress you**, and it's largely the government that keeps that from happening. Social democratic government is supposed to be a check-and-balance on the rich and powerful, and it's only when voters let the *latter* sneak into the *former* that problems really begin.

** They're just better at selling you on how their oppression is a good thing.



frodo_17

December 1st, 2009 at 11:37 pm

I don't agree. Electronics, computers, materials sciences, propulsion technology, [telecommunications](#), GPS, biological sciences – and the list goes on – have all benefited tremendously from government sponsorship (the U.S. and others). A lot of it comes from either military applications or raw research which doesn't initially have a market application. Personal computing as we know it would not exist had the U.S. government not 1) supplied a lot of the research capital and 2) been a huge consumer (driving the market) of the products

subsequently developed. This benefits everyone. I’m not saying that government is the answer to all questions. I think a combination of government support and private industry, however, can be very beneficial in bringing new technologies to the marketplace.

**frodo_17**

December 1st, 2009 at 11:43 pm

I meant, I don’t agree that this is simply corporate welfare.

**Configurator77**

December 2nd, 2009 at 2:09 pm

There is enough evidence to strongly indicate that there was corruption and influence buying in the many billions of dollars that has already been handed to the big car companies and that small, domestic, competitive, innovative car companies were intentionally stalled by the handful of men hired by DOE to run the money because they were beholden to those big car companies. If the White House did not realize the DOE staff were killing American small business, they do now!!! thanks to Daryl Siry being brave enough to put his career on the line by disclosing this. Now it is up to the White House to act to keep it’s legacy clean and to keep America’s legacy of innovation intact. The President needs to order DOE to fix this and reach out to the small American Car companies and help, not roadblock them. Aptera and Zap had never had a single letter or [phone call](#) from a single DOE official offering to help them, find them an option or assist in any other manner.

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