The New York Times

May 29, 2012

Challenges Mount for Chinese Maker of Electric Cars

By KEITH BRADSHER

HONG KONG — Four years ago, the BYD Company promoted the electric battery technology it was developing as a way to help China transform the automobile. No less an investor than Warren E. Buffett, one of the world's richest men, boasted about the company's prospects and bought a 10 percent stake.

But recently, nothing has gone right. BYD's stock is down 43 percent from its high on Feb. 8 as investors and analysts have questioned whether the company has the technology or the manufacturing quality to be an enduring competitor in the Chinese market.

BYD's sales of gasoline-powered cars, the company's commercial mainstay, have wilted this spring as Chinese buyers have moved toward more expensive but better-quality cars from its rivals. At the same time, BYD now accepts that the future of the auto industry is more likely to lie in hybrid gasoline-electric cars, a technology in which it lags Japanese manufacturers, and not in all-electric cars, which still face issues of battery range and recharging time.

And on Sunday, new questions arose about the company's battery technology when a Nissan GT-R sports car traveling at more than 110 miles an hour slammed into the back of one of BYD's electric taxis in southern China and set the vehicle aflame.

The taxi, an e6 battery-electric sedan, spun across three lanes of traffic, hit a tree and turned into an inferno, killing all three occupants. Photos of the blazing wreck quickly spread on the Internet in China and sent the stock down sharply on Monday, prompting BYD to issue a long statement on Tuesday emphasizing that no car, electric or otherwise, would have been likely to survive such an impact.

"We don't know what happened — the battery pack burned or the high-voltage gear burned or the fabric was lit or maybe some other reason," said Paul Lin, the company's marketing director, adding that neither the police nor the company had determined yet whether the high-speed impact or the ensuing fire caused the deaths.

Chinese news media reported that the sports car driver was a drunken man accompanied by three women. The occupants of the sports car were not seriously hurt and the driver fled.

Although BYD's shares bounced back on Tuesday as investors appeared to accept the company's explanation, BYD's longer-term challenges remain.

When Mr. Buffett bought 10 percent of the company in September 2008, using a subsidiary of his main company, Berkshire Hathaway, BYD had plans to start exporting electric cars to the United States within two years. Those plans quickly stalled, partly because of the global economic slowdown, but also because BYD, like many automakers, has since concluded that gasoline-electric hybrids are more promising.

"More and more companies are certainly going to do it like this," Wang Chuanfu, BYD's founder and chairman, said in an interview last autumn at his company's headquarters in Shenzhen, while not ruling out a future for electric cars in China.

BYD's biggest troubles in the last few months have been in the market for gasoline-powered cars. The company had grown rapidly over the last five years as a manufacturer of cheap, very basic cars for China's rapidly expanding middle class.

But over the last year, middle-class car buyers in China have become a lot more discerning — and more prone to choose multinationals' offerings than locally designed cars. Although other Chinese automakers are also struggling, BYD has been among the hardest hit.

BYD's car sales fell 8 percent in the first four months of this year even as the overall Chinese car market grew 6 percent. In April alone, the company's sales slid 19 percent as the market grew 18 percent.

Part of the problem is a sharp shift in government policies.

The city of Beijing, which had been the country's largest municipal car market, cut by two-thirds last year the number of license plates it issues annually and created a lottery for distributing them. With license plates in short supply, buyers have tended to put them on expensive foreign-brand cars instead of locally manufactured economy cars.

The national government, in December 2010, ended two separate programs that had stimulated sales in 2009 and 2010. One policy had sharply reduced the sales tax on cars with very small engines, while the other had subsidized vehicle purchases by residents of rural areas.

Chinese manufacturers, particularly BYD, tend to make cars with small engines, and sell them disproportionately to rural buyers and other customers with relatively low incomes.

The Chinese government hinted on Monday that it might help the auto industry with a “cash for clunkers” program, providing government subsidies for people who trade in used cars for new cars, as part of a broader move by Beijing officials to stimulate the country’s faltering economy.