

# EthicScan Canada

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## Partnership Screening Research Report

Prepared Exclusively for the Use of <NAME WITHHELD>

Company Name: Tesla Motors Canada  
EthicScan DataBase Number: 11695  
Contract Number: 19-086 (PC)

FINAL

Screen Topic	Concern		
	Major	Minor	None Apparent
Ethical Management			X
Employment Equity		X	
Environmental Responsibilities		X	
Progressive Management		X	
Community Responsibilities	X		
Public Health and Heritage			X
Ethical Sourcing and Trading		X	
Other		X	

**Background:** *Tesla, a major automaker with factories in the United States, the Netherlands and China, was founded in 2003 by Martin Eberhard and Marc Tarpenning and named after Nicola Tesla, (1856-1943), the Serbian inventor and engineer who created the induction motor and alternating-current (AC) power transmission. CEO Elon Musk joined the company soon after it was incorporated. World headquarters are at Palo Alto, California; the Canadian subsidiary is based in Toronto.*

*The company speaks of itself as the world's first vertically integrated sustainable energy company, offering end-to-end clean energy products, including generation, storage and consumption. It has a global network of stores, galleries, vehicle service centers, Mobile Service technicians, body shops, Supercharger stations and Destination Chargers to accelerate the widespread adoption of its products (map of North America locations <https://www.plugshare.com/>). Tesla sells and leases solar energy systems (with or without accompanying energy storage systems) to residential and commercial customers.*

*Tesla first produced the Roadster in 2008 demonstrating the battery technology and power train. In 2008 it introduced the first all-electric sedan Model S, with over-the-air software updates. In*

2015 the sport utility Model X; 2016 the low-priced Model 3; 2017 the truck Tesla Semi. Model Y is now coming on. Activities include production of solar panels from Solar City, also financed by Musk; development of self-driving capabilities to “improve vehicle safety;” and the sale of vehicles through its own sales and service network.

The enterprise manufactures vehicles primarily at facilities in Fremont and Lathrop, California; also certain parts and components critical to their intellectual property and quality standards. The Fremont facilities contain several manufacturing operations, including stamping, machining, casting, plastics, body assembly, paint operations, drive unit production, seat assembly, final vehicle assembly and end-of-line testing. In addition, the firm manufactures lithium-ion battery packs, electric motors, gearboxes and components for Model S and Model X at Fremont.

Tesla also operates factories in Tilburg, Netherlands; their Gigafactory 1 near Reno, Nevada (energy storage products); and solar products at U.S. facilities including in Buffalo, New York (Gigafactory 2). In January 2019, Tesla began construction of the Gigafactory Shanghai in China, to begin producing certain trims of Model 3 for the local market by the end of 2019. Some major vehicle component systems are purchased from suppliers.

The European headquarters and manufacturing facilities are located in Amsterdam and Tilburg, the Netherlands. Operations in Tilburg include final assembly, testing and quality control for Model S and Model X vehicles delivered within the European Union, a parts distribution warehouse for service centers throughout Europe, a center for remanufacturing work and a customer service center.

**Ethical Management:** The company has an extensive ethics guidance suite including written policies, feedback and complaint mechanism, whistle-blower protection, and standards for employees, management and supply chain contractors.

Tesla has an on-line Code of Conduct that “represents the minimum baseline of acceptable business conduct and ethics at Tesla.” Certain job functions and departments at Tesla, or those dealing with unique work situations such as transactions with governments, “may be required to follow even stricter policies.” Tesla says it also has a number of other policies for specific business and administrative situations, such as the proper handling of travel and other expenses.

In terms of conflict of interest provisions, there are general gift policies (while noting that U.S. laws about dealing with officials are more stringent). Anti-harassment policies address issues are race, colour, religion, veteran status, national origin, ancestry, pregnancy status, sex, gender identity or expression, age, marital status, mental or physical disability, medical condition, sexual orientation, or any other characteristics protected by law, as well as any unwelcome physical or verbal advances. “Discrimination and harassment may take any form—verbal, physical or visual—and includes slang or joking in ways that may be offensive to others, as well as bullying.”

Confidentiality provisions in the code are normal, as are social media guidelines, media relations and marketing guidelines, and the circumstances and the extent to which individuals are allowed to speak on Tesla’s behalf. Tesla states it “will not construe or apply this Policy in a manner that prevents employees from communicating about wages, hours or other terms and conditions of employment.” The code includes common provisions regarding privacy, both personal and corporate.

Regarding whistle blowing, employees are “encouraged to talk to supervisors, managers or other appropriate personnel about illegal or unethical behavior and when in doubt about the best course of action in a particular situation.” Specific offices that may be involved include the Legal Department, the Internal Audit or Human Resources teams or the Integrity Line available on Tesla’s intranet website.

Tesla says it does not allow retaliation for reports of misconduct by others made in good faith by employees. Employees are expected to cooperate in internal investigations of misconduct. “Any employee may submit a good faith concern regarding questionable accounting or auditing matters without fear of dismissal or retaliation of any kind.”

In addition to the corporate code for employees, there is a CEO and Board code: the CEO and senior financial officers are subject to the following additional specific policies: “Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by Tesla with the SEC.” All must notify the Disclosure Committee of any material information that affects the disclosures made by Tesla in its public filings (Disclosure Controls and Procedures Policy). They must notify the Disclosure Committee and the Audit Committee about “(a) significant deficiencies in the design or operation of internal controls which could adversely affect Tesla’s ability to record, process, summarize and report financial data or (b) any fraud, whether or not material, that involves management or other employees who have a significant role in Tesla’s financial reporting, disclosures or internal controls.”

Senior executives and Board members must notify the General Counsel or the Legal Department or the CEO and the Audit Committee of any violation of Tesla’s Code of Business Conduct and Ethics, as well as “material violation of the securities or other laws, rules or regulations applicable to Tesla and the operation of its business, by Tesla” or its agents.

The Board of Directors shall determine, or designate appropriate persons to determine, appropriate actions to be taken to deter wrongdoing and to promote accountability to the Code of Business Conduct and Ethics, which “shall include written notices to the individual involved that the Board has determined that there has been a violation, censure by the Board, demotion or re-assignment of the individual involved, suspension with or without pay or benefits (as determined by the Board) and termination of the individual’s employment.”

There was a complaint in 2019 when Musk threatened to take the company private that Musk had too little independent constraints on his executive behaviour, and this is noted as a risk in the company’s 10K report. Tesla has a world-wide no bribes policy <https://www.tesla.com/sites/default/files/about/legal/tesla-worldwide-bribery-and-anti-corruption-policy.pdf>

**Employment Equity:** Tesla globally employs 48,000 people. The spokesperson declined to identify how many are women. There are nine Board members (two female). None of the three person senior management is female. The company spokesperson in the United States declined to provide information about daycare referral, or flexible scheduling, mentoring, or extended maternity/paternity leave.

Tesla claims that diversity and inclusion are integrated into their business, recruiting and the communities. It says that product leaders review their demographics and create business action plans in order to continue to lead an inclusive workforce. Required is a diverse interview panel to reflect the diversity of candidates, and provide the recruiting team with unconscious bias training to uncover and mitigate their biases when reviewing candidates. They also partner with the Public Workforce Systems, a network of U.S. federal, state and local offices that support economic expansion and development of the U.S.’s workforce, to train and recruit diverse talent. These partners include the Department of Veteran’s Affairs, Department of Social Services, Department of Labor, Department of Education and various government agencies and community resources.

At the Fremont Factory, over two-thirds of “production leads” identify as Asian, Hispanic/Latino, African American or Other. The company says it also participates in outreach events with certified diverse suppliers to continue to broaden the range of their vendors, such as the California Public Utilities Commission’s Small and Diverse Business Expo.

The Human Rights Campaign's Corporate Equality Index is the national benchmarking tool on corporate policies and practices pertinent to lesbian, gay, bisexual, transgender and queer employees. Tesla received a score of 100/100 on the Corporate Equality Index for 5 years in a row, and has been named in the "Best Places to Work for LGBTQ Equality" from the Human Rights Campaign.

A Military Friendly Employer, Tesla claims to have one of the largest veteran groups in the state of California and over 1800 veterans in the workforce globally. Tesla Energy is also the founding recruiting partner of the U.S. Department of Energy's Solar Ready Vets program, providing accelerated training to help place transitioning veterans into the solar industry.

The company's compensation philosophy is said to "reflect our start-up origins, with an emphasis on equity-based awards and benefits in order to closely align their incentives with the long-term interests of our stockholders." There is an equity incentive plan and employee stock purchase plan providing an "evergreen" plan that permits the board of directors to increase on an annual basis, subject to specified limits, the number of equity based awards that may be granted to, and shares of our common stock that may be purchased by employees.

According to a June 10, 2019 report by Reuters: Tesla placed 16th on LinkedIn's annual "Top Companies 2019" list published in April, compiled from billions of actions taken by its over 600 million users that indicate job interest and demand. It held the fifth and sixth spots in 2018 and 2017, respectively. At jobs site Glassdoor, Tesla's overall company rating fell to 3.2 out of 5.0 stars based on reviews written in the first quarter from a high of 3.6 in 2017, according to historical data compiled by Glassdoor at Reuters' request. The average rating of the nearly 1 million employers reviewed on the site is 3.4. In the first quarter, Elon Musk's CEO approval rating dropped to 52% from 90% in 2017. Tesla's "recommend to a friend" rating fell to 49% in the first quarter from a high of 71% two years prior, the Glassdoor data showed. Similarly, Glassdoor ratings for culture and values, career opportunities, senior leadership and six-month positive business outlook all fell. Only "work-life balance" and "compensation and benefits" remained static. No metrics improved. A caution: The reviews are anonymous and Glassdoor says it does not verify identities or employment status.

Told of the rankings, according to Reuters, a Tesla spokeswoman said the company remains a highly sought after employer. Tesla received over half a million job applications in 2017 and again in 2018 and expects to exceed that figure in 2019, she said. Tesla also made Forbes list of "Most Innovative Companies" last year. Employer branding specialist Universum ranked Tesla and sister company SpaceX as the most attractive employers for engineering students.

The corporate spokesperson declined to comments on Reuters report that Tesla lost \$700 million in the first quarter and saw a drop in vehicle deliveries, raising concerns about consumer demand and shipping logistics. Wall Street is said to be souring on Tesla, with the company's shares falling 39% so far this year. Analysts have cut their ratings after the company announced lower deliveries and worries over the company's direction. Of the two current and 16 former employees who spoke with Reuters since January, some praised Musk as a visionary but said his management style and the exodus of executives have left a void in leadership.

**Environmental Responsibilities:** Tesla, which produces environmentally responsible electric cars, has many programs to conserve water, reduce solvent and other waste on-site, and other conservation efforts, many of which are described in [https://www.tesla.com/ns\\_videos/tesla-impact-report-2019.pdf](https://www.tesla.com/ns_videos/tesla-impact-report-2019.pdf) . There are a number of contentious challenges, including product criticisms, industrial production problems, and, in places, controversial critiques. In particular, there are many critiques of its products regarding sources, manufacturing processes, and recycling and disposal. Tesla neither prepares nor discloses a transparent summary, annual document itemizing non-compliance penalties worldwide.

### (a) Electric Vehicles

Because Tesla's business exists primarily to make possible transportation while enhancing the health of the environment, Tesla provides the following discussion of its electric vehicles:

A common rebuttal to electric vehicles as a solution to carbon emissions is that they simply transfer the CO<sub>2</sub> emissions to the power plant. The obvious counter is that one can develop grid electric power from a [variety of means](#), many of which, like hydro, wind, geothermal, nuclear, solar, etc. involve no CO<sub>2</sub> emissions. However, let's assume for the moment that the electricity is generated from a hydrocarbon source like natural gas, the most popular fuel for new US power plants in recent years.

The H-System Combined Cycle Generator from General Electric is 60% efficient in turning natural gas into electricity. "Combined Cycle" is where the natural gas is burned to generate electricity and then the waste heat is used to create steam that powers a second generator. Natural gas recovery is 97.5% efficient, processing is also 97.5% efficient and then transmission efficiency over the electric grid is 92% on average. This gives us a well-to-electric-outlet efficiency of 97.5% x 97.5% x 60% x 92% = 52.5%.

Despite a body shape, tires and gearing aimed at high performance rather than peak efficiency, the Tesla Roadster requires 0.4 MJ per kilometer or, stated another way, will travel 2.53 km per megajoule of electricity. The full cycle charge and discharge efficiency of the Tesla Roadster is 86%, which means that for every 100 MJ of electricity used to charge the battery, about 86 MJ reaches the motor.

Bringing the math together, we get the final figure of merit of 2.53 km/MJ x 86% x 52.5% = 1.14 km/MJ. Let's compare that to the Prius and a few other options normally considered energy efficient.

The fully considered well-to-wheel efficiency of a gasoline powered car is equal to the energy content of gasoline (34.3 MJ/liter) minus the refinement & transportation losses (18.3%), multiplied by the miles per gallon or km per liter. The Prius at an EPA rated 55 mpg therefore has an energy efficiency of 0.56 km/MJ. This is actually an excellent number compared with a "normal" car like the Toyota Camry at 0.28 km/MJ.

It should be noted that, lately, natural gas as a source of electricity, while credited for less carbon emission, is blamed for methane emissions, much more damaging to the environment <https://www.edf.org/climate/methanemaps/leaks-problem>. And while Fremont and San Mateo, California, Sparks, Nevada, and Buffalo, N.Y. all claim major efforts in supplying renewable energy sources, natural gas continues to be a major component of their power systems. To all these points should be added the obvious, that enabling more individual transport continues the need for using, constructing, and maintaining roads. Roads are themselves problems in the environment because of the processes used to make and maintain them. Continued provisions of individual transport also necessitate parking provisions. Some of this may eventually be reduced or eliminated by self-driving vehicles (an interest of Tesla) which are rented for the moment, rather than owned by individuals permanently.

### (b) Recycling

Tesla says that about 10% (by weight) of their battery packs can be reused. In North America they hire [Kinsbursky Brothers](#), which recycle about 60 percent of the battery pack; in Europe, [Umicore](#). Umicore's factory plants are able to recycle the batteries into completely reusable materials and substantially reduce the carbon footprint of manufacturing Lithium-ion batteries.

The Umicore battery recycling technology is able to save at least 70 percent on CO<sub>2</sub> emissions at the recovery and refining of these valuable metals by creating "products" and "byproducts," rather than following a mechanical separation process. "Product" is comprised of an alloy that's refined into cobalt, nickel and other metals. Cobalt (the highest value material in the batteries) is used to make up LCO (lithium cobalt oxide) that can be resold to battery manufacturers.

The "byproduct" produced together with the alloy fraction is an "environment-friendly" slag where the lithium contained in EV batteries ends up. This "byproduct" containing lithium is valorized in different applications, one being construction material. Nearly 5 percent of the global man-made CO<sub>2</sub> emissions worldwide are produced by cement manufacturing (*see comments above about roads*). Replacing the raw materials with secondary raw materials, and avoiding thermal

processing, significantly reduces the CO2 emission and non-renewable resources consumption. With the “byproduct,” the construction industry is able to use this secondary raw material as a more environmentally-conscious alternative.

The only other emissions from the recycling process are CO2, water vapor, and dust. The dust makes up about 1 percent of the total output, and goes to protected landfill. Umicore sells the electricity created from an on-site combined natural gas generation plant to the copper mine next door, which uses the heat in its smelters. Also next door is [Aqua Metals](#), which has a novel process for recycling lead batteries. (The sum total of lithium-ion batteries currently equates to less than 4 percent of global battery production. Ninety-six percent of global battery production is lead acid. Lithium-ion batteries also contain very little lithium.)

Solar panel recycling is also possible <https://news.energysage.com/recycling-solar-panels/>.

### **(c) Conflict Minerals;**

The principle challenges are conflict sources of supply, as this involves violence surrounding procurement, methods of mining, uses of mercenaries to curb “artisanal mining” (particularly gold), poisonous by-products of processing and environmental damage by residuals.

Tesla’s report on this is stand: <https://www.tesla.com/sites/default/files/about/legal/2018-conflict-minerals-report.pdf>

Canada is one of the 3TG (tungsten, tantalum, tin, and Gold) source countries. Gold and cobalt are prominent among the mining efforts. The Government of Canada has a Minerals and Mining Plan [https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/CMMP/CMMP\\_The\\_Plan-EN.pdf](https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/CMMP/CMMP_The_Plan-EN.pdf) But a list of specific local actions will not be ready until 2020.

### **(d) Employee Commuting:**

Tesla offers employees alternative transportation programs to provide a more sustainable way of commuting, like the bike-to-work program in the U.S. Tesla also encourages ride sharing through a variety of carpooling services, operating a network of commuter shuttles to and from work to reduce not only vehicle emissions, but also time spent in traffic. In the Bay Area, almost 4,000 employees take shuttles to work a day and in Nevada, roughly 2,000 employees ride shuttles to Gigafactory a day, lowering commuting costs for employees. Several hundred employees also carpool daily, and Tesla encourages all employees to take public transportation to work, subsidizing these costs in select markets. Tesla also has hundreds of electric vehicle charging stations at their facilities to encourage Tesla employees to go electric.

### **(e) Environmental Exceedances and Violations**

The corporate spokesperson declined to provide information about environmental exceedances: or pollution of air, water, or land; support for environmental organizations; or the name and title of most senior environmental affairs officer.

The company issued a 48-page “Impact Report” in 2018 which reveals information about regular sustainability, corporate responsibility and community responsibility. It includes abundant information and descriptions about water usage, solvent reclamation, and claims of reduction in CO<sup>2</sup> emissions. It includes information about the Fremont plant, but not the others. A similar report for the previous year was not found; this may be the first such report.

According to the “Silicon Valley Business Journal” of March 2, 2018, Tesla has agreed to pay \$139,500 in fines for using malfunctioning burners at its assembly plant in Fremont that spewed dangerous levels of nitrogen oxides into the air. Tesla blamed old equipment it inherited from the plant’s former tenants, General Motors and Toyota. The problem has since been fixed, according to the Bay Area Air Quality Management District, which levied the fine.

The lack of a regular, comprehensive and systems-wide, annual report on environmental issues is troublesome, especially in light of unconfirmed non-compliance reports from an unverified source like “The Drive” (no dates specified):

According to [minutes from a November 2018 meeting](#) of the Bay Area Air Quality Management District’s board of directors, reports of conflagration prompted the regulator to step up their scrutiny of Fremont’s paint shop. “Following the fire in April 2018 and smoldering event in June 2018, at Tesla Inc., Air District staff have been conducting inspections at Tesla’s North Paint Shop, Assembly and Touch-Up Operations. Air District staff are in the process of reviewing Tesla’s permit applications and evaluating previously unpermitted coating operations, including all coatings, solvents, and adhesives used at the facility,” reported Compliance and Enforcement Division Director Jeffrey Gove.

In fact, BAAQMD staff first noticed potential fire risks much earlier. According to a [Tesla semi-annual compliance report](#) dated July 31, 2018, Senior Air Quality Inspector Huynh informed Tesla on January 9 that an inspection the month before had identified a permit condition deviation involving improper disposal of flammable solvent wipes in the plant’s North Paint Shop. Then, on April 3, an E-Scrub system used to control overspray emissions at Primer Spray Booth #1 and Clear Coat Spray Booth #3 were “de-energized due to safety concerns as possible ignition sources for fires.” Two days later, reported that a fire had broken out at a primer booth on the 3rd, the first of a series of high-profile reports of fires at the facility.

On June 1 [CNBC’s Lora Kolodny followed up with a story](#) reporting that the April 3 fire had been worse than previously understood, and that no fewer than four fires had taken place at Fremont’s paint shop since 2014. On June 5th, [I reported in the Daily Beast](#) that sparks from an E-Scrub’s electrostatic plates had sparked paint that had backed up out of a clogged hopper, sparking the fire. Though Tesla responded to both Kolodny’s and my reports by touting the steps it had taken to upgrade equipment, a BAAQMD document shows that another E-Scrub system was de-energized on the 21st “as investigative findings indicate that the electrically charged plates are a source of ignition for fires in spray booths.

But the most worrying detail in Kolodny’s story was the one that nobody seemed to pay much attention to, and which I struggled to corroborate. “Months before the April fire, the sprinkler heads were clogged and coated at least an inch thick of paint and clear-coat,” according to Kolodny’s sources. “Filters below the paint booths and exhaust systems that clean and carry air into and out of the building were also visibly coated.” Though seemingly innocuous compared to repeated conflagrations, the new documents confirm that this was actually evidence of cascading problems that had left the paint shop out of compliance.

Tesla had failed to obtain the necessary Permit To Operate for 15 emissions sources and four abatement systems installed as part of its 2015 revamp of North Paint, and had failed to perform required particulate emissions tests on three of those sources (all spray booths) and the E-Scrub systems that were supposed to abate their overspray. With the e-Scrub system shut off due to fire risk, overspray began to collect in the shop’s ductwork and damaged the thermal oxidizer, leading to an “informational” source test that showed the oxidizer was letting through Precursor Organic Compounds through the abatement device at a rate above the permitted limit. Conveniently, however, Tesla hadn’t maintained records related to the temperature at which it was operating that oxidizer, raising now-impossible-to-answer questions about its actual POC destruction rate.

Over the May 26-29 shutdown, Tesla tried to clean up its ducts, fix the thermal oxidizer and cobble together an unpermitted filter house system (which ironically can be seen in [an official company video titled “Tesla 2018”](#), see blue filters on the floor in the image at the top of this post) to replace the E-Scrub and keep overspray out of the ducts and sprinklers. This emergency fix seems to have kept this unlucky section of the paint shop out of the list of deviations and violation notices for the rest of 2018, but an unpermitted physical filter system would likely fundamentally affect the entire system’s airflow and thus its permit conditions.

By September it was the South Paint shop’s turn to feature in BAAQMD’s documents, specifically [the very same thermal oxidizer that created the plant’s first real air quality compliance problem way back in 2015](#). This time oxidizer A-1002 had bigger issues than just emitting a little extra NOx, shutting down completely for four and a half days while Tesla continued to produce cars (and likely POC emissions) at its highest rates to date. Tesla obtained “breakdown relief” for this debacle, but then it turned out that records for A-1002 hadn’t been maintained since 2016 when [its previous refurbishment was supposed to have been completed](#).

This combination of repeated problems at A-1002 and the lack of record maintenance for the system raises even tougher questions about its real-world emissions over the years, but the problems still weren’t over. In December, a “miscommunication” between Tesla and its source test contractor meant A-1002’s annual test wasn’t completed requiring a “make-up compliance test.”

*Then, in April of 2019 Tesla went before BAAQMD's Hearing Board to request permission to operate A-1002 at 1275 degrees Fahrenheit instead of the 1400 degrees the district wanted due to damage that the company said was likely to get worse at the higher temperature. The board sided with Tesla, figuring that further damage could cause worse emissions than the lower operating temperature. It is unclear if the damage in question was also caused by the decision to turn off the E-Scrub system, but regardless Tesla will finally replace A-1002 in June of 2019.*

**Progressive Management:** Tesla remains non-unionized, and complaints still before the American NLRB deal primarily with efforts to resist unionization. A 9% headcount reduction throughout the company was announced in June 2018. Tesla announced a further lay off of another 7% of its workforce in January 2019. The company spokesperson declined to comment on progressive staff policies; employee/family counselling; telecommuting work options; or marijuana testing in Canada.

Employee informal bargaining resource groups include: Black@Tesla, Intersectionality@Tesla, LGBTQ@Tesla, Teslatinos, Veterans Taskforce and Women In Tesla. These non-certified associations serve as a resource regarding employee and community issues, ideas and policies.

Progressive practices include collaborations with organizations utilizing The Workforce Innovation and Opportunity Act (WIOA), an initiative that provides employment services, develops career pathways, training programs and talent pipelines. WIOA provides U.S. federal funds to eligible community based organizations to help job seekers, workers and businesses with career services, job training and education.

Regarding health and safety, the company says that violence and threatening behavior are not permitted, nor are weapons at work. Employees should report to work without being under the influence of illegal drugs or alcohol. There is a Substance Abuse and Testing Policy; *it is unknown how Tesla Canada deals with marijuana issues, either medical or recreational.*

Tesla provides avenues for grievances and complaints from employees, shareholders, customers, suppliers, or other interested party, anonymously or confidentially. They may contact Tesla's Board of Directors to provide comments or to report concerns to the corporate secretary or legal affairs.. Corporate Secretary: [legal@tesla.com](mailto:legal@tesla.com).

**Community Responsibilities:** This is a **Major Concern**. There is no information about the enterprise's total charitable donations, either cash or products in kind, and few specifics about instances where the company encourages employee voluntarism or involvement in community service. The spokesperson declined to provide information about charitable giving and other community support and voluntarism activities, including cooperation with community-based non-profit charities.

The corporate spokesperson declined to answer questions about hiring, procurement, community support or partnership programs that target women or children, nor about special promotion of procurement from minority owned businesses

In the U.S. Tesla does sponsor an unspecified number of programs to encourage young peoples' interests in STEM, described in diverse documents, including programs to assist their qualifying for employment at Tesla. When asked a question about such programs in Europe, Canada and China, the spokesperson declined to respond.

In 2018, Elon Musk announced participation in a plan which sees Tesla fans donating the kid-sized cars they may have received as a bonus gift from the company for referring new customers. Will Fealey, president of the Tesla Owners UK fan club, wrote to Musk asking for help with a plan to donate the [RadioFlyer](#)-produced Tesla Model S for Kids to children in need. The Founders Series edition of the toy, with an exclusive brushed aluminum license plate, is available as a [prize for electric car owners](#) that refer either one or two friends to buy their own vehicle. Musk



responded positively to Fealey's plan to buy 24 cars and roll out a donation program across Europe. Fealey claims that so far, members of the fan club have pledged to donate 26 cars, with the aim of reaching 50 via external support. *This is probably one of the more cynical "charitable donation" programs of recent years: it promotes a Tesla product rather in the way Coca Cola promotes itself world-wide, it is the result of a customer-referral program to begin with, and it is fans, more than the company, who run the program.*

When Hurricane Maria struck Puerto Rico in September 2017, destroying thousands of homes and cutting electric grid power on the island, the initial emergency response was focused on deploying diesel generators to provide temporary electricity. In addition to releasing harmful emissions and requiring constant refueling and maintenance, these generators were extremely loud and not designed to run for long periods, so many failed. In response, Tesla provided over 1,000 battery storage systems paired with solar panels to deliver reliable and emissions-free electricity to over 660 locations throughout Puerto Rico, such as the Hospital del Niño Children's Hospital in San Juan.

**Public Health and Heritage:** Many of the company's raw materials are rare and the acquisition, despoliation, and waste implications cause health, safety and public rights issues. The effects on public health and demand for private use of public spaces are not always clear.

The company spokesperson declined to discuss health issues and safety of products and/or services, company involvement with public health, nutrition, or immunization programs; whether there are recreation and historical preservation efforts; whether there is involvement in nuclear energy and/or weapons; and whether it makes military or dual- application electronics systems.

**Responsible Mineral Sourcing:** Suppliers are expected to strictly follow all U.S. and applicable foreign law, and are required to provide full disclosure on material sourcing in accordance with the United States Government Securities and Exchange Commission (SEC) and Section 1502 of the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act, including by providing complete and accurate IMDS submissions as requested by Tesla. Suppliers are accountable for developing and implementing their own due diligence program in alignment with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas. Suppliers must identify, address and mitigate any risks in their supply chain related to the mining of minerals originating from regions at high risk.

**Conflict minerals:** Suppliers are expected to use "reasonable" efforts to ensure that parts and products are DRC "conflict-free," meaning that such conflict minerals do not benefit armed groups in the Democratic Republic of the Congo. Conflict-free means such parts and supplies do not contain metals derived from "conflict minerals" which are defined as:

- (i) columbite-tantalite (tantalum);
- (ii) cassiterite (tin);
- (iii) gold;
- (iv) wolframite (tungsten); and
- (v) any derivatives of the above.

**Ethical Sourcing and Trading:** The company's high tech products require sourcing widely from hundreds of suppliers and this creates challenges. Tesla has a great many suppliers so supply chain management is critical.

The international company follows American laws and forces that policy upon Canadian supply chain partners. For example, The Canadian company Sherrit International mines cobalt in Cuba and sells it to Panasonic, an exclusive battery manufacturer for Tesla. It's supply was suspended in July 2018 because of the place of origin, which is banned by the U.S. government.

There is a written Code of Conduct for Suppliers. Tesla notes in its 10K filing that thousands of purchased parts are sourced globally from hundreds of suppliers. With close relationships with

several key suppliers, many parts come from a single source. This is reflected in the carefulness of the language in their policy.

Tesla expects suppliers to stay up-to-date with and to use validated conflict free smelters and refiners assessed by the [Responsible Mineral Initiative](#) and similar organizations. Tesla says that it performs ongoing due diligence and files annual reports with the U.S. Securities and Exchange Commission in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Supplier Compliance: Tesla says it will do a number of things to ensure compliance by its suppliers with its supplier compliance policy as required by law and as needed:

- Evaluate its supply chain to address risks related to conflict minerals, human trafficking, slavery and child labor;
- Audit suppliers, to evaluate supplier compliance with Tesla's Human Rights and Conflict Minerals Policy;
- Require direct suppliers to certify that materials incorporated into Tesla products comply with the laws regarding conflict minerals, slavery, child labor and human trafficking of the country or countries in which they are doing business;
- Discipline employees or contractors, including potential termination of contract, who fail to meet Tesla's Human Rights and Conflict Minerals Policy;
- Train certain Tesla employees regarding conflict minerals, human trafficking, child labor and slavery, particularly with respect to mitigating risks within the Tesla's supply chain;
- Investigate if Tesla has a reasonable basis to believe that a Tesla supplier is engaging in human trafficking, slave or child labor, or use of conflict minerals; and
- Transition away from purchasing goods or services from any supplier that is believed to be engaging in human trafficking, slave or child labor, or use of conflict minerals if the supplier does not take corrective actions within a reasonable period of time.

Tesla “encourages” suppliers to develop their own policies and “share them in a transparent manner.” Suppliers “shall” keep records demonstrating compliance with Tesla’s code and laws. Tesla, the suppliers, and “independent 3d parties” will audit. Non- compliance will cause “transitioning away” until and unless the violation is corrected. Specific conditions include:

(a) No slave labour: Suppliers shall employ and use only workers who are at least the age of 15, have reached the age of completion of compulsory education, or meet the legal minimum age for employment, whichever is highest.

(b) Withholding of, or destruction of, employee identity or immigration documents, passports or work permits is prohibited. Tesla Supplier Partners are required to provide full disclosure under the California Transparency in Supply Chains Act of 2010.

(c) Wages and benefits, and grievance procedures, will comply with local laws.

(d) Health and Safety: Tesla expects partners to adopt and maintain Health and Safety Management Systems to limit exposure to occupational hazards, prevent emergencies, safeguard machines, manage physically demanding work, and provide access to clean toilets, potable water, and sanitary eating facilities. Suppliers shall comply with all applicable laws.

(e) Partners shall adopt and maintain Environmental Management Systems to ensure compliance with all applicable environmental laws and regulations, including management of all waste, discharges, and emissions, and more efficient use of water and energy resources.

From EthicScan’s analysis of the company’s US filings, we have identified companies with a presence in Canada listed as suppliers (identified with an asterisk). EthicScan has not completed an analysis of whether the Canadian locations actually supply Tesla or whether these particular plants are compliant with Canadian laws. The company’s 10K emphasizes that these sourcing matters are changeable.

- AGC Automotive\*: windshields
- Brembo: brakes
- Fisher Dynamics: power seats
- Inteva Products\*: instrument panel

- Modine Manufacturing Co.: battery chiller
- Sika\*: acoustic dampers
- Stabilus: liftgate gas spring
- ZF Lenksysteme\*: power steering mechanism

Other suppliers include ADAC, ABC Group\*, Angell-Demmel, Argent, Gentex, Harada, Hitachi Cable America, Hope Global, MacLean-Fogg\*, Magna International\*, Methode Electronics, Multimatic\*, Panasonic\*, Plastomer\*, PSM International\*, Riviera, T1 Automotive\*, Zanini Auto Group, TXU Corp\*., Universal Logistics Holdings, Inc., Affinia Group Intermediate Holdings Inc.\*, Lithium Exploration Group, Inc.\*, U.S. Lithium Exploration Group, Inc., Niocorp Developments, Ltd., Rare Element Resources, Ltd\*., Burlington Northern Sante Fe Corp., Cooper Industries, Ltd.\*, Clarcor, Inc.\*, Dana Corporation, DELPHI CORPORATION\*, Flowserve Corp\*., NextEra Energy, Inc.\*, Harman International Industries Inc., Lightwave Logic, Inc., Molex Inc., Metaldyne Performance Group Inc., Nortek, Inc\*., ROHM AND HAAS COMPANY, Searchlight Minerals Corp.

Still, more suppliers include: Integrys Holding, Inc., Titanium Metals Corp., Thomas & Betts Corporation\*, Curaegis Technologies, Inc., Findex Com Inc., Vystar Corp., Liquidmetal Technologies Inc., Sense Technologies Inc., Omnitek Engineering Corp., Puradyn Filter Technologies Inc., Hammer Fiber Optics Holdings Corp., Amerityre Corp., Zap, Telkonet Inc., CDTI Advanced Materials, THT Heat Transfer Technology Inc., Zoom Telephonics Inc., Seachange International Inc., IEH Corporation, Arc Group Worldwide, Emcore Corp, CUI Global Inc.\*, NI Industries Inc., Perma-pipe International Holdings Inc\*., UFP Technologies Inc., Applied Optoelectronics Inc., Paragon Offshore PLC, Universal Stainless & Allow Products Inc., Deswell Industries Inc., Trecora Resources, Core Molding Technologies Inc\*., Supreme Industries Inc., Neophotonics Corp., Harmonic Inc., CECO Environmental Corp., KMG Chemicals Inc\*., Gorman Rupp Co\*., DMC Global Inc., Avid Technology Inc\*., China Automotive Systems Inc., CSW Industrials Inc., Proto Labs Inc., Aeon Inc., Voxx International Corporation, Strattec Security Corp., CTS Corp., Bel Fuse Inc., Haynes International Inc\*., Pam Transportation Services Inc., Jason Industries Inc\*., and Handy & Harman Ltd.\*

**Other Issues:** The major ones are government subsidies, regulatory issues; and consumer complaints.

**(a) Government subsidies:**

Government relations are important to the company particularly because of the needed encouragement for consumers to purchase EVs, and permission/support in establishing recharging outlets. Government actions may include subsidizing purchases of cars and panels and cells, along with supervision of environmental impact, and perhaps including/encouraging recharging stations for vehicles. Governments change, and so do partisan preferences regarding EVs, solar power, and batteries, as illustrated most recently in Ontario and Alberta.

Perhaps as a sign of this importance, the current manager of public policy and government affairs in Canada had relevant experience in the Ontario government (his transfer to Tesla had explicit approval of the Integrity Commissioner).

Government relations in Canada:

**Federal:**

\$5,000 rebate for individuals purchasing vehicles with a base MSRP\* under \$45,000 before including delivery centre fees.

\*MSRP shown is based on the definition established by Transport Canada for the purposes of the iZEV program. This price excludes a \$1,300 delivery and inspection fee and standard vehicle registration fees.

Business customers receiving the Federal point of sale incentive may not be able to claim the write-down enabled by the 2019 federal budget.

## Provinces

Please refer to the program websites for the latest information.

[British Columbia](#)      \$3,000 rebate for vehicles with a base price under \$55,000  
Carpool lane access (with official EV decal)

[Ontario](#)                      Carpool lane access

[Québec](#)                      Up to \$8,000 rebate for vehicles with a base price under \$75,000  
Up to \$3,000 rebate for vehicles with a base price between \$75,000 and \$125,000  
Up to \$600 rebate on Wall Connector and installation  
Reserved lane access (with official EV decal)  
Sign-up for free toll bridges and ferry access

## U.S.

There are multiple agreements with the California Alternative Energy and Advanced Transportation Financing Authority (“CAEATFA”) that provide multi-year sales tax exclusions on purchases of manufacturing equipment used for specific purposes, including the expansion and ongoing development of Model S, Model X, Model 3 and future electric vehicles and the expansion of electric vehicle powertrain production in California.

There are also agreements with the State of Nevada and Storey County in Nevada that provide abatements for sales, use, real property, personal property and employer excise taxes, discounts to the base tariff energy rates and transferable tax credits.

**Energy Storage:** The regulatory regime for energy storage projects is still under development. Nevertheless, there are various policies, incentives and financial mechanisms at the federal, state and local levels that support the adoption of energy storage. For example, energy storage systems that are charged using solar energy are eligible for the 30% tax credit under Section 48(a)(3) of the Internal Revenue Code, or the IRC, as described below. In addition, California and a number of other states have adopted procurement targets for energy storage, and behind the meter energy storage systems qualify for funding under the California Self Generation Incentive Program. The Federal Energy Regulatory Commission (“FERC”) has also taken steps to enable the participation of energy storage in wholesale energy markets. In 2011 and 2013, FERC removed many barriers for systems like energy storage to provide frequency regulation service, thus increasing the value these systems can obtain in wholesale energy markets. More recently, in late 2016, FERC released a Notice of Proposed Rulemaking that, if it becomes a final rule, would further break down barriers preventing energy storage from fully participating in wholesale energy markets. Finally, in January 2017, FERC issued a statement supporting the use of energy storage as both electric transmission and as electric generation concurrently, thus enabling energy storage systems to provide greater value to the electric grid.

**Solar Energy Systems Government and Utility Programs and Incentives:** U.S. federal, state and local governments have established various policies, incentives and financial mechanisms to reduce the cost of solar energy and to accelerate the adoption of solar energy, including tax credits, cash grants, tax abatements and rebates. The federal government currently provides an uncapped investment tax credit (“ITC”) under two sections of the IRC: Section 48 and Section 25D. Section 48(a)(3) of the IRC allows a taxpayer to claim a credit of 30% of qualified expenditures for a commercial solar energy system that commences construction by December 31, 2019. The credit then declines to 26% in 2020, 22% in 2021, and a permanent 10% thereafter. The federal government also provides accelerated depreciation for eligible commercial solar energy systems. Section 25D of the IRC allows a homeowner-taxpayer to claim a credit of 30% of qualified expenditures for a residential solar energy system owned by the homeowner that is placed in service by December 31, 2019. The credit then declines to 26% in 2020 and 22% in

2021, and is scheduled to expire thereafter. In addition to the federal ITC, many U.S. states offer personal and corporate tax credits and incentives for solar energy systems.

**(b) Regulation:**

While there is not a record of misleading advertising cases in Canada, there have been charges against Tesla in the U.S., Germany, and Norway.

Tesla is not a “regulated utility” in the U.S. Tesla obtains interconnection agreements from the utilities. Sales of electricity and non-sale equipment leases by third parties, such as our leases and PPAs, face regulatory challenges in some states and jurisdictions.

**Net Metering:** Most states in the U.S. have a regulatory policy known as net energy metering available to solar customers, allowing solar customers to interconnect their on-site solar energy systems to the utility grid and offset their utility electricity purchases by receiving a bill credit for excess energy generated by their solar energy system that is exported to the grid. In certain jurisdictions, regulators or utilities have reduced or eliminated the benefit available under net metering, or have proposed to do so.

**Mandated Renewable Capacity:** Many states also have adopted procurement requirements for renewable energy production, such as an enforceable renewable portfolio standard, or RPS, or other policies that require covered entities to procure a specified percentage of total electricity delivered to customers in the state from eligible renewable energy sources, such as solar energy systems. In SREC state markets, the RPS requires electricity suppliers to secure a portion of their electricity from solar generators. The SREC program provides a means for SRECs to be created. A State Renewable Energy Certificate (SREC) represents the renewable energy associated with 1,000 kWhs of electricity produced from a solar energy system. When a solar energy system generates 1,000 kWhs of electricity, one SREC is issued by a government agency, which can then be sold separately from the energy produced to covered entities who surrender the SRECs to the state to prove compliance with the state’s renewable energy mandate.

**(c) Consumer complaints:**

Two years after the official launch of its Model 3 sedan, intended to catapult Musk’s company to volume car producer status, Tesla is still struggling to reach its targets. The company provides phone numbers for emergency roadside assistance in several countries [https://www.tesla.com/en\\_CA/roadside-assistance](https://www.tesla.com/en_CA/roadside-assistance).

**Recalls:** According to Kelly Blue Book, recall notices were issued in 2017 and again 2018 for Takata exploding airbag inflators that, in the event of airbags deployment, could send metal fragments into the passenger compartment risking injury to the driver or passenger. The vehicles affected include all 2012 and 2013 Model S sedans totaling 17,846 cars. As of April 2018, the completion rate for this recall stood at 43.1 percent.

More recently, Tesla recalled 2012-2016 Model S cars equipped with Bosch steering racks. Corroded aluminum bolts connecting the power steering gear assist motor to the gear housing may fail, causing partial or complete loss of power steering assist. No completion rate date is currently available.

In 2017, Tesla issued two recalls. The first involved 2016-2017 Model X vehicles regarding a faulty second-row seat latching mechanism. As of May 2018, the completion rate for the 4,582 vehicles involved in this recall was 79.7 percent. The second recall involved 2016-2017 Model S and Model X vehicles. An improperly manufactured internal gear in the electric parking brake assembly may fail, causing the parking brake to either freeze up upon release or fail to hold the vehicle adequately when applied. As of April 2018, of the 31,472 vehicles affected, some 74.3 percent had been repaired. In 2015, nearly 60,000 Model S cars were recalled due to possible improperly secured front seatbelt mechanism. As of April 2017, the completion rate for this recall was 93.1 percent.

## Reference Details

PSR Report Commissioned By: NAME WITHHELD

Date Prepared: July 29, 2019

Corporate Spokesperson: Kevin Auerbacher, Senior Counsel

Company President: Elon Musk

EthicScan Researcher: Glenn Brown

Company Contacted Prior to Sending: Yes X No   

## Caution

*The research contained above is correct to the best of EthicScan Canada's knowledge. It typically includes interviews with corporate executives, labour officials, and a thorough review of our DataBase. Where there is sufficient time allotted by the client to contact the company to verify the data, the preferred methodology, this information is noted above.*

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