

# Safety questions and shady sales tactics are chilling the China-Tesla love affair

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 [technode.com/2021/04/13/safety-questions-and-shady-sales-tactics-are-chilling-the-china-tesla-love-affair](https://technode.com/2021/04/13/safety-questions-and-shady-sales-tactics-are-chilling-the-china-tesla-love-affair)

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When Mi Jiayi was shopping for a car in Hangzhou in early 2020, there was no question in his mind it would be a Tesla. For the 30-year-old legal advisor with a local investment conglomerate, it would be the first car he ever owned.

His respect for Tesla CEO Elon Musk was one factor in the appeal of the brand. On test drives, he was attracted by the design and some of Tesla's fancy technological features. "The vehicles look so gorgeous compared with some other cars in similar price ranges," he recalled. "Also, its Autopilot system is good at detecting vehicles and pedestrians on the road," Mi said (our translation).

Specifically, he was hoping to buy a Long Range Model 3, expected to become available sometime in 2020, which boasted a driving range 50% longer than the Standard Range Plus model. In other words, it could be driven 223 more kilometers (139 miles) without a recharge.

At first, he had no interest in the standard-range version, which had been available for order in China since October 2019. But when he repeatedly asked about the long-range Model 3's launch date at a local showroom, the sales staff told him it wouldn't hit the market at least until the end of the year, Mi told TechNode. The sales staff finally convinced Mi and he placed his order in early March 2020, signing up for delivery in May. He was surprised when the vehicle was delivered on March 31, nearly two months earlier than expected.

## Drive I/O

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Drive I/O is TechNode's monthly newsletter on the cutting edge of mobility: EVs, AVs, and the companies trying to build them. Available to TechNode Squared members.

Mi's mood soured ten days after receiving his new car, when Tesla announced plans to launch its China-made long-range Model 3 for delivery in June—and priced just 4% higher than its standard plus counterpart.

Mi had just missed out on the newer Model 3: Had he received his car on the date he expected—or just three days later than he did—he could have swapped it for a long-range vehicle under a seven-day return policy. He suspects that the delivery was rushed to him to prevent him from trading up.

Mi used to admire Musk, known as “the Iron Man” among Chinese fans, as “a great, powerful person.” Now, he says Tesla is being “dishonest” and “untrustworthy” (our translation). In December 2020 he filed a suit against the company for deceptive sales practices and is waiting for a court date. He says more than 600 Tesla owners nationwide have similar complaints. On a chat group he helped to form on Chinese messaging app WeChat, hundreds of Tesla owners air a variety of grievances with Tesla and Musk.

## Cooling romance

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So far, none of the lawsuits over alleged promises of sales staff are known to have prevailed in court, but the complaints of people in social media groups have spilled into the mass media. Then there are more than ten recent accidents that Tesla drivers have blamed on mechanical malfunctions, which early this year drew the attention of Chinese regulatory authorities. Some of the accusations of malfunctions are similar to those made by Tesla owners in the US.

Through it all, Tesla executives have appeared little concerned about the tarnishing of the company's once dazzling brand image in China. Tesla's rare public responses are often dismissive. The company didn't reply to TechNode's numerous attempts to comment on the complaints and charges against it. In short, Chinese consumers' short but hot romance with Tesla may be cooling off.

Imported Teslas began to arrive in China in 2014, but the first made-in-China vehicles only rolled out of the Shanghai factory in late 2019. Yet today the company dominates the country's electric vehicle (EV) market. Tesla has boosted Beijing's prized industry and is a

pillar in the plan for it to become a global auto power.

“I’ve lost all my confidence and trust in the company.”

*Zhou Wanjun, Tesla model 3 owner*

Tesla is seen by many Chinese people as an innovator and Musk as a visionary. On the social media platform Weibo, he has 1.7 million followers. Among China’s status-conscious, middle-class urbanites, Musk quickly became an icon (in Chinese). These Tesla owners see themselves as early adopters at the forefront of a transport revolution and are inspired by the company’s stated mission to fight climate change.

“It seems like you will finally see a Tesla logo everywhere you look in the city,” says William Hu, a human resources expert in Shanghai who had just ordered a Model 3 sedan. To him and his peers, a Tesla is a signifier of social standing and fashion.

## Market leader

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There’s another reason why Tesla holds such a rarefied spot in China’s EV market: It offers the most competitive product.

Although the first Teslas made in China, the Model 3 sedans, only began deliveries in January 2020, today the company has a 21% share of the EV market and commands a huge lead over other EV automakers in the country. In 2020, it sold nearly 140,000 of the Model 3. China’s best-selling EV, the Model 3 now has a retail price starting at RMB 249,900 (\$38,500), a price made possible by localization of car parts and generous government subsidies. Tesla’s big bet on self-driving technology also made its China-built vehicles a compelling consumer product that few can compete with.

“I am amazed by the superior experience of driving a Tesla,” Wen Wen, a BMW owner said recently after test-driving a Model 3 in the southwestern municipality of Chongqing (our translation). To compare, she told TechNode that she had just taken a “pretty good” ride in an Xpeng’s premium P7 sedan two days before.

Hu expressed a similar sentiment. “Tesla’s self-driving and intelligent capabilities are way more advanced,” he said, comparing the automaker to other luxury EV brands such as Nio.

The brand’s status value in China has bolstered its global bottom line. In January, the California-based company posted its 2020 results, showing its first full year of profitability and record delivery figures. Skyrocketing growth in the Chinese mass market has propelled its market cap as the world’s most valuable automaker. Revenue from the China market increased more than 120% year-on-year, reaching \$6.66 billion in 2020 and accounting for 21% of Tesla’s global revenue, the company reported in an SEC filing on Feb. 8.

Tesla is now pumping up production of the Model Y sports utility vehicle (SUV) in its quest to reach a loftier goal: upping the total number of all Tesla deliveries this year by 50% compared to 2020. The Shanghai factory began manufacturing the Model Y only last December, but industry observers predict it will be the best-selling premium EV this year.

The experts also say Tesla is aiming to avoid the kind of mistakes Apple made in China. When Apple opted to strengthen its position in the high-end market, it inadvertently ended up giving cheaper-priced domestic rivals plenty of space to grow. The US carmaker, on the other hand, is using every means—notably a string of price cuts—to seize market share from both premium and mainstream automakers.

## **‘I feel cheated’**

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But as Tesla ramps up deliveries of the Model 3, it faces lawsuits alleging that it has misled buyers of the model.

The first PR blow-up began last April, just around the time Mi Jiayi believes he was deceived into buying a Standard Range Plus Model 3. Other angry owners also accused Tesla sales reps of tricking them into buying that model shortly before the long-range model they wanted was released at only a slightly higher price. Videos of angry Model 3 owners spread like wildfire on Chinese social media.

Some one-time Tesla superfans have sued the company over what they perceive as shady sales practices. Court action is expensive in China. Mi, who has legal training, is among a relatively small number of unhappy customers forging ahead.

Another dissatisfied customer, who sued Tesla for sales fraud in a Beijing court last summer, is local resident Feng Chao, who told TechNode (our translation), “If I had known the long-range Model 3 would be launched in April, I would definitely have bought it.” The electrical engineer explained. “I frequently commute between Beijing and Tianjin, and don’t have a permanent parking space to install a private charger.” He lost his appeal in September due to insufficient evidence.

As Fang Chaoqiang, a lawyer at Beijing-based Yingke Law Firm, explained to TechNode,

“It is difficult for a customer to win such a case, unless there is sufficient evidence that Tesla made false claims and manipulated customers to make a purchase” (our translation).

According to a December report by Chinese-language media site Sina Tech, Tesla’s management pushed its sales team to sell more of the Standard Range Plus Model 3 cars and rush to deliver them to customers before the end of March 2020. Citing company insiders, Sina Tech reported that China-based Tesla executives hid the imminent launch of the longer-range model from the sales team, and pushed to offload the existing standard models.

Tesla did not respond to TechNode’s requests for comments about this claim.

In fact, Tesla has not responded to a query from TechNode since October 2019. Sometime last year, the company eliminated its California-based global public relations team altogether. US trade publication Electrek got confirmation of the news in October. Musk's relationship to the press throughout the world is prickly and he has long complained that coverage of Tesla is unfair.

TechNode has been unable to reach Tesla China's PR team since Head of Communications Cheryl Zhang left the company in late 2019. If someone bears that title now, the information is not publicly available. Meanwhile, the face of the company in China, Grace Tao, whose title used to be "head of public affairs" was changed to "vice president of external affairs," reflecting some of the title changes at global headquarters.

## **Sales pressure and price cuts**

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In chat groups on social media platform Weibo, Tesla's China leadership is widely viewed as focusing on short-term goals without considering long-term benefits. "[Tesla China's] business practices, the communication with the public and its brand reputation are getting worse. Maybe it doesn't matter to them at all," (our translation) Bill Lin, a Model 3 owner from the eastern city of Xiamen told TechNode.

Tesla is also facing backlash from Tesla owners who, otherwise happy with their cars, are angry that sales people rushed them to make a purchase only to see subsequent drastic price cuts.

These owners say sales staff claimed that the sticker price of the vehicles would remain unchanged for the foreseeable future. For example, a customer surnamed Zhang in Zhengzhou, Henan Province, said a local salesperson promised there would be no upcoming price cuts when she decided to buy her standard-range plus Model 3, about a year ago, according to a report by Henan Television, a state media unit. Less than two weeks after Zhang accepted delivery on April 13, Tesla announced a round of price reductions of nearly RMB 30,000 for the model.

By October, the starting price of a locally made, standard-range plus Model 3 had been slashed four times. In less than a year, the price fell from RMB 355,800 to RMB 249,900—a 30% drop.

Some Model X and S owners have even filed lawsuits alleging deceptive sales practices related to price cuts. According to public records, none have won and some have lost. Perhaps some of the owners won out-of-court monetary settlements from Tesla, as rumors have it, but such agreements do not appear in these records.

## **More lawsuits**

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Tesla customers regretted buying too soon to enjoy price cuts, and to benefit from a Tesla tax break. When the company won exemption from a 10% tax on imported cars in August 2019, some customers said they should have gotten advance warning.

In a lawsuit filed last April, one sedan owner claimed a Tesla salesperson in March 2019 told him there was no possibility of a tax exemption for the imported cars in the near future. The delivery of his car was completed with the payment of purchase tax in May, just three months before Tesla secured the exemption from the tax, thus reducing the sales price by as much as RMB 69,000.

A local Shanghai court in November ruled in Tesla's favor in this case due to insufficient evidence, according to a verdict published on China Judgements Online, the official Chinese courts site.

Some complaints and hopes for compensation are more far-fetched. An owner surnamed Ouyang sued Tesla on charges of price fraud in May 2019. She complained of a dramatic price slash of RMB 222,600 nine months after her purchase of an imported Model X in Chongqing. She felt she should have been notified of possible future price cuts. In late 2019, she lost the case, with the court saying that a seller is free to change prices, a court ruling shows.

Customers have also made similar complaints about price changes with the locally-made Model 3, but TechNode does not know if any of these owners have sued Tesla. After a round of price cuts in May 2020, Tesla did respond to the subsequent uproar on social media with a public outreach campaign. In the following two months, top Tesla management visited showrooms around the country and hosted roundtables with owners, requesting feedback on how to introduce price cuts in the future.

## Outdated chips

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Although price cuts dominated the complaints about Tesla in 2020, the first wave of fraud claims concerned what disgruntled Model 3 owners call "hardware downgrading." Musk publicly stated in April 2019 on the company's Autonomy Day that all Model 3, S and X vehicles were already being equipped with the hardware foundation for full self-driving software. With the new Hardware (HW) 3.0 chipset, designed in-house, Musk promised that owners would simply have to wait for the company to finish developing its self-driving software and then they could download a patch to get a highly autonomous car.

Early in 2020, multiple Chinese owners of locally-made Model 3's complained that the chips in their cars' computers were the older HW 2.5 Nvidia ones, instead of the HW 3.0 chips. Soon after, around 400 owners of imported Model 3's reportedly complained (in Chinese) that their cars had the older generation chips as well.

Tesla blamed the issue on a supply crunch caused by the Covid-19 pandemic and promised to retrofit all the China-made sedans with HW 3.0 chips. However, the company later made a distinction between the owners of China-made Model 3's and imported Model 3's. Even though all owners faced the same problem, owners of imports were denied upgraded replacement chips.

If it seemed strange for a company to alienate customers who had paid RMB 439,900 to be among an elite group of early adopters, legal experts said the undisclosed hardware downgrade for China-made vehicles was also in breach of contract. However, the HW 3.0 chipset was not specified in the contracts with owners of the imports, reported National Business Daily (in Chinese).

Zhou Wanjun, a Shanghai web designer, is one of the owners of an imported Model 3 who believe the company lied to them. He bought his long-range import in late 2019, trusting a Twitter post by Musk in early January 2019 that said the model wouldn't be produced at all in China. It turned out that Zhou's purchase took place about six months before the long-range Model 3 began production in China. Zhou and his peers cite Musk's public statement of April 2019 about the HR 3.0 chips being installed in all new vehicles.

Tesla China later clarified that it would provide the hardware upgrade for free for those who paid RMB 64,000 to subscribe to its "full self-driving (FSD)" function. The company has since maintained that the driving experience for the vehicles enabled by HW 2.5 is essentially the same as those equipped with HW 3.0 for owners who did not buy the FSD feature.

After tolerating quality glitches and feeling cheated by "a lack of transparency" in Tesla's sales and customer practices for a year, Zhou expressed a profound sense of regret that he ever bought the car when he spoke with TechNode last month.

"I've been following Elon Musk on Twitter for a while and, for me, now he is a blowhard and behaves in a brash way with a history of overpromising self-driving cars. You used to see the brand as a tech innovator, however, the sharpness disappears once you have one," (our translation), Zhou added.

"I've lost all my confidence and trust with the company, and my next car won't be a Tesla," he said.

## **Safety hazards**

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Amid complaints about pricing and deceptive sales practices, Tesla also faces more serious accusations: that the safety of its vehicles isn't up to scratch. The company's dismissive responses, sometimes blaming the victims, have made matters worse.

In the past nine months, drivers of Tesla vehicles in China have blamed at least 10 accidents on mechanical malfunctions. Dozens more owners have complained about brake failures, battery fires, defective wheels, and unintended acceleration over the past few months, according to multiple Chinese media reports.

For example, a Tesla vehicle in Beijing in January crashed into a car after the driver attempted to prevent the accident by slamming on the brakes. The accident led the driver to question whether her car had a braking problem, according to a recording obtained by Chinese media.

“Armies of exceptionally satisfied Tesla owners customers effectively drown out noises generated by Tesla detractors. Who needs a public relations division?”

*Michael Dunne, CEO of ZoZo Go*

A Tesla service representative initially insisted that there were no brake problems and suggested that the female driver wasn't strong enough to hit the brake and prevent the accident.

After the angry driver resorted to local media with her report of the exchange, the social media platform Weibo picked it up and spread it to a much wider audience. Thousands of incensed netizens shared the company's insulting answer. Tesla later apologized (in Chinese) in a Weibo post for its language, blaming the accident on an icy road. It said the problem had been resolved.

Most recently, a Tesla owner produced what she told a local TV station was video evidence of a repeatable brake failure. As reported by the station, two Hainan residents, surnamed Yu and Meng, said Meng collided with a traffic barrier on March 11 when his brakes failed while driving Yu's Model 3 in his company's unpaved parking lot. The pair called a Tesla technician, who attempted to repeat Meng's actions in a second Model 3, repeating the crash.

Tesla in a March 14 statement (in Chinese) confirmed that a technician had reproduced the accident when driving another Model 3 on the scene, but said, “Our initial findings show it was mainly due to the wet ground and insufficient pressure to brake pedal by the driver and in that case it requires extra stopping distance” (our translation). The video, shot by Meng, does show the technician's car driving through a large puddle in the dirt parking lot, but seems to show the car failing to stop over at least two car lengths' of relatively dry ground. Yu wrote in a March 19 statement that she had reached a settlement with the company and planned to refuse further interviews.

According to the Tesla statement: “We conducted two tests using different braking approaches using another Tesla vehicle at the site in order to find out the cause of the accident. During the first test, we repeated what the driver did when the crash happened, which is pressing the brakes lightly twice and hitting it hard the third time. It turned out the vehicle did skid on the wet road. However, in the second test, the vehicle finally stopped within the safe distance when our employee kept hitting the brakes hard all the time.”

The company reiterated that system data recorded no failures in the vehicle's acceleration and braking systems, and pledged to “help the customers deal with follow-up issues in an active manner and improve product and service qualities, with safety being its top priority.”

## Echoes of US complaints

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In early February, five government departments responded to mounting owner complaints by calling in Tesla executives to urge them to obey Chinese law and protect consumer rights, according to Reuters and an announcement (in Chinese) by the State Administration for Market Regulation (SAMR). In a posted response, Tesla pledged to obey Chinese laws, strengthen investigations and to “systematically investigate problems ... collectively reported by our consumers.”

Some of the accusations of owners in China echo criticisms of Tesla vehicles made earlier in the US. In response to a petition on behalf of more than 100 US drivers, the US National Highway Traffic Safety Administration (NHTSA) in January 2020 opened an investigation into a variety of issues, including unintended acceleration and brake failures. After examining 127 claims of product faults, however, the federal regulator concluded early this year that there was no evidence to support the complaints.

Tesla had said in a statement that it has been transparent with NHTSA and the claims made by owners in the US petition were “completely false.”



*In front of a Tesla booth at a shopping center in Xi'an on April 25, 2020, angry owners protest with a banner claiming they had been tricked into buying Standard Range Plus Model 3 cars.  
(Image credit: Weibo/@Hu Zifei)*

In particular, the US agency found no evidence that a system error could cause the cars to accelerate without the driver's intention. Tao, the Tesla China vice president for external affairs, cited the NHTSA investigation when she rejected claims by Chinese drivers of unintended acceleration in a Jan. 9 statement on Weibo.

Social media platforms Weibo, WeChat, and Quora-like Zhihu, were then flooded with posts and comments (in Chinese) accusing Tesla of passing the buck. National state media finally weighed in on March 28 in a Xinhua opinion column criticizing the failings of various makers of new energy vehicles (in Chinese). The column singled out Tesla for shifting onto drivers the responsibility for accidents caused by unintended acceleration.

However impersonal or dismissive Tesla's approach to customer complaints, the causes for most of the accidents in China are still unknown. Most owners give radically different versions of what happened when the errors occurred. And neither SAMR nor any other government authority in China has publicly initiated an investigation.

## Indispensable?

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It sometimes seems like Elon Musk and his company are made of Teflon.

Barring a catastrophe, two China industry analysts say it is unlikely sales will suffer this year. When complaints make an impact, the next quarter's sales figures drop, said Tu Le, managing director of Sino Auto Insights, yet that certainly didn't happen to Tesla last year and current sales seem "brisk."

For all the Tesla owners angry about price cuts they missed out on, "a ton more" who benefited are quite happy with the company, Le said.

Michael Dunne, CEO of ZoZo Go and former managing director of JD Power's China unit, agreed. "Armies of exceptionally satisfied Tesla owners effectively drown out noises generated by Tesla detractors," he said. "That has been the reality so far in the US, Europe, and China. Who needs a public relations division?"

The demands for Tesla to address consumer complaints are nonetheless getting louder. In the last year, they have grown from scattered online complaints, to mass media, to official scolding. The March 28 Xinhua column reprimanding Tesla for blaming drivers for its vehicles' quality lapses shows that top-level official media are paying attention to these consumer complaints.

There is no denying that Tesla has had persistent problems with quality, Le said, and the problems will continue to multiply because the company's growth is so aggressive. "We will see even more as the Model Y ramps up," he added. The rapid growth also partially explains the poor quality of service, he said: "Service has yet to catch up with demand."

Yet when state media produced a list of the past year's worst offenders of consumer rights on March 15, Tesla got a pass. To the surprise of the public and industry insiders, Tesla wasn't mentioned at all when the annual televised gala marking Consumer Rights Day reprimanded other tech and auto companies before a national audience. However, Tesla was called out in a local Consumers Rights Day broadcast in Guangdong province (in Chinese).

For the time being, Tesla may have a layer of protection because the company is so integral to the growth of the nation's EV industry. "There is a symbiotic relationship between the Chinese government and Tesla," Le said. "Look, Nio wouldn't be here without Tesla. Tesla is not leading the world in EVs without China. Maybe in five years, it will be different."



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