CLEAN ENERGY CANADA

SUBMISSION

Date: August 1, 2024 | **Prepared by:** Joanna Kyriazis, Director of Public Affairs, Clean Energy Canada

Submission to the Government of Canada's Consultations on potential policy responses to unfair Chinese trade practices in electric vehicles

Clean Energy Canada is a program within the Morris J. Wosk Centre for Dialogue at Simon Fraser University that works to accelerate the clean energy transition. Clean Energy Canada has worked for over a decade to support EV uptake in Canada by inspiring and informing effective policy making and building consumer awareness. We are pleased to submit these comments as part of the Government of Canada's *Consultations on potential policy responses to unfair Chinese trade practices in electric vehicles*. Our submission focuses on the implications of potential trade measures related to zero-emission light-duty vehicle manufacturing and uptake in Canada. It does not address implications or potential policy responses for medium- and heavy-duty vehicles.

Summary recommendations

Surtax under Section 53 of the Customs Tariff

- If the federal government decides to move forward with a surtax (or other form of tariff) on Chinese-made EVs, it should take a more nuanced approach that aligns with the EU's approach, as opposed to that of the U.S.
- Any tariff amounts should be determined on an Original Equipment Manufacturer (OEM)-by-OEM basis to level the playing field where there is evidence of unfair subsidization or dumping.
- Any tariffs should apply only to final assembly to minimize impacts on OEM supply chains that still rely on Chinese inputs (from battery materials to battery cells) and avoid raising costs of production (thereby raising prices for consumers).
- A grace period of at least 90 days should be provided before any tariffs go into effect to allow EV manufacturers sufficient time to adjust their production plans. Tariffs should also be applied only for a pre-specified period during which domestic producers develop

and implement plans to improve their competitiveness, and/or a period after which there is a review to determine if the trade measure is still needed.
- The federal government should seek a commitment from the Government of Ontario to introduce consumer EV purchase incentives to support EV affordability for consumers and build demand for Canadian-made EVs.
- The federal government should seek commitments from domestic producers that will benefit from the protection. These could include commitments to hold firm on EV-related production timelines, invest in charging infrastructure, and prioritize bringing more affordable EV models to the Canadian market.

Changes to iZEV program eligibility

- Do not make changes to eligibility that exclude China specifically and do not align eligibility with conditions placed on the U.S. EV tax credit because such changes will significantly limit the number of EVs eligible for the rebate and slow EV uptake.
- If any changes to iZEV eligibility are made, consider making them based on the vehicle's lifecycle emissions or by offering a 15% incentive "bonus" for vehicles assembled in Canada or North America.
- Complement the federal government's trade response with an "EV affordability package" that re-funds and extends the iZEV program until 2028 when additional Canadian-made EVs come to market. In addition,modify the iZEV program to better support Canadians who need the most help going electric by exploring a gradual lowering of MSRP caps, considering additional rebates of $2,000 for cars with MSRPs under $40,000 for income-eligible Canadians, and introducing used EV rebates.

Surtax

Concerns and expected impacts of a potential surtax

Clean Energy Canada strongly agrees that we must protect Canada's burgeoning EV industry, a sector that could employ 250,000 Canadians by 2030,[1] while navigating a delicate relationship with our two largest trading partners, the U.S. and China. However, we are concerned that imposing a high surtax on plug-in hybrid and electric passenger autos found in Annex 2 of the consultation document when imported from China without evidence of unfair trade practices would slow the uptake of electric vehicles in Canada by making affordable EVs less accessible to Canadians, violate World Trade Organization (WTO) rules and draw retaliation from China.[2] A high surtax could also impede competition and efficient market function.

[1] Canada's New Economic Engine. *Clean Energy Canada* https://cleanenergycanada.org/report/canadas-new-economic-engine/ (2022).
[2] The specific product numbers in Annex 2 we are concerned about imposing a surtax on include 8703.60.10, 8703.60.90, 8703.70.00 and 8703.80.00.

Slow EV uptake and compromise Canada's climate targets by reducing the availability of affordable EVs

Clean Energy Canada's top concern is that a high surtax on Chinese-made EVs could reduce the already limited number of affordable EV options available to Canadians, block Chinese competition that could otherwise help drive down the price of EVs, and raise the costs of EV production—all of which could compromise Canada's ability to meet its EV and climate targets. According to BloombergNEF's most recent EV outlook, "[t]ariffs and further protectionist measures could slow down global EV adoption in the near term."[3]

Canadians are currently struggling through a cost-of-living and climate crisis. Zero-emission vehicles are one of the best ways to address this twin challenge, cutting carbon pollution and saving Canadian drivers money. A recent report from Clean Energy Canada comparing popular EV models with their gas equivalents finds that going electric can save a typical Canadian driver approximately $3,000 with most EVs breaking even after less than a year thanks to government rebates and savings on fuel, maintenance, and repairs.[4] That same report found today's Canadian EV drivers pay the equivalent of $0.40 per litre gas to charge their cars. The federal government has recognized these benefits and has set legislated targets of 20% ZEV sales by 2026, 60% by 2030 and 100% by 2035. However, upfront EV affordability remains a top barrier to mainstream EV adoption.[5]

Unfortunately, there are very few affordable EV models currently available to Canadians. While Europeans can choose from 11 different electric options with a purchase price of less than C$45,000, in Canada there are just two (the Bolt and the Fiat 500e).[6] Similarly, Europeans have 52 electric hatchbacks on offer in their market, compared to just four available in Canada. As a result, EVs in Europe now make up 24% of all new cars sold, double Canada's EV market share.[7] Similarly, China, home of BYD's sub-$20,000 Seagull—among many other low-priced EV models—is seeing EV sales soar to 44%.[8]

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[3] Electric Vehicle Outlook 2024. *BloombergNEF* https://about.bnef.com/electric-vehicle-outlook/ (2024).
[4] The Scenic Route. *Clean Energy Canada*. *https://cleanenergycanada.org/report/the-scenic-route/* (2024).
[5] Canadians' Awareness, Knowledge and Attitudes Related to Zero Emission Vehicles (ZEVs) – 2024. *Natural Resources Canada.* https://publications.gc.ca/collections/collection_2024/rncan-nrcan/M144-311-2024-1-eng.pdf (2024); EV purchase consideration cools for second consecutive year in Canada, J.D. Power finds. *J.D. Power* https://www.jdpower.com/business/press-releases/2024-canada-electric-vehicle-consideration-evc-study (2024).
[6] Electric Vehicle Database. https://ev-database.org/#sort:path~type~order=.rank~number~desc|bodyshape-checkbox-dropdown:pathGroup=.shape-hatchback|rs-price:prev~next=10000~100000|rs-range:prev~next=0~1000|rs-fastcharge:prev~next=0~1500|rs-acceleration:prev~next=2~23|rs-topspeed:prev~next=110~350|rs-battery:prev~next=10~200|rs-towweight:prev~next=0~2500|rs-eff:prev~next=100~350|rs-safety:prev~next=-1~5|paging:currentPage=0|paging:number=10 (2024); Electric Vehicles. *PlugNDrive*. https://ev.plugndrive.ca/vehicles (2024).
[7] Kane, M. Europe: Plug-In Car Sales Exceeded 3 Million In 2023. InsideEVs https://insideevs.com/news/707425/europe-plugin-carsales-december2023/ (2024).
[8] Krisher, T & Moritsugu, K. Chinese-built Seagull EV set to pose stiff competition for US auto industry. *National Observer.*

Part of the problem is that North American carmakers are not prioritizing bringing affordable EVs to market. For example, the 2023 Chevrolet Bolt was recently discontinued by General Motors, despite being by far the cheapest electric vehicle available in Canada and the third best-selling EV in the country last year.[9] iZEV data shows federal rebate claims for the Bolt increased seven times between 2022 and 2023 after GM announced the model would be discontinued, indicating Canadians' interest in affordable EVs.[10] While General Motors plans to reintroduce the Bolt in 2025, its temporary removal has left a large gap in the market for smaller, more affordable EVs.

Federal and provincial governments have been working hard to attract EV and battery supply chain investments to Canada, and Clean Energy Canada commends them on these successful efforts. But Canada cannot rely on domestically produced vehicles to fill the affordability gap in the Canadian EV market. For one, besides the Chrysler Pacifica plug-in minivan, most Canadian-made EVs and batteries are not expected to come to market until 2027 or 2028. EV-related production plans may also be delayed or canceled altogether, as we've already seen multiple producers announce. Finally, nearly all of the plants slated to produce EVs in Canada will not be making EVs for the mainstream market. In other words, they will not be building smaller, more affordable EVs that would compete with the type of vehicles China has been prioritizing. Rather, Canadian-made EVs will consist of:

- A plug-in hybrid minivan (Chrysler Pacifica)
- An electric delivery van (Brightdrop EV600)
- A battery electric muscle car (Dodge Charger)
- A potential electric pickup truck (Ford Super Duty)

Honda is the only manufacturer with plans to make mass-market EVs, with two new electric crossover models to be made in Ontario by early 2028. We must not penalize consumers and slow our climate efforts as we wait for the only two Canadian-made EVs that will meet mainstream consumer needs. See the chart below for a summary of the status of major EV and battery production plans in Canada.

https://www.nationalobserver.com/2024/05/13/news/chinese-seagull-ev-competition-us-auto-industry (2024); Kane, M. China's plug-in car sales increased to 44% market share in April 2024. *InsideEVs.* https://insideevs.com/news/721356/china-plugin-car-sales-april2024/ (2024).

[9] Cain, T. Canada's 10 best-selling EVs, PHEVs in 2023. *Driving.ca.* https://driving.ca/column/driving-by-numbers/10-best-selling-electric-vehicles-canada-2023 (2024).

[10] Statistics on the Incentives for Zero-Emission Vehicles (iZEV) Program. *Transport Canada.* https://open.canada.ca/data/en/dataset/42986a95-be23-436e-af15-7c6bf292a2e1 (2024).

Table 1: Status of Major EV and Battery Production Plans in Canada

Canadian EV/battery production project and location	Electric vehicle model or part	Date production expected to start	Delayed or canceled?
Stellantis - Windsor, Ontario[11]	Electric Dodge Charger	Two-door models will be available late 2024, and four-door models are set to arrive early 2025.	No.
Ford - Oakville, Ontario[12]	Possibility of electric Super Duty truck production	"Later this decade"	**Yes.** Initially planned for late 2024, then pushed to 2027[13], now **canceled**.[14]
Honda - Aliston, various locations[15]	Two new electric crossover models by early 2028, cathode active material and precursor (CAM/pCAM)	2028	No.
General Motors, Ingersoll CAMI Plant[16]	BrightDrop electric delivery vans	Production is ongoing	Production was **halted** October 2023, **restarted** in April 2024.
Toyota	N/A	N/A	N/A
General Motors - St	Electric motors	Paused indefinitely	**Yes.** Production was

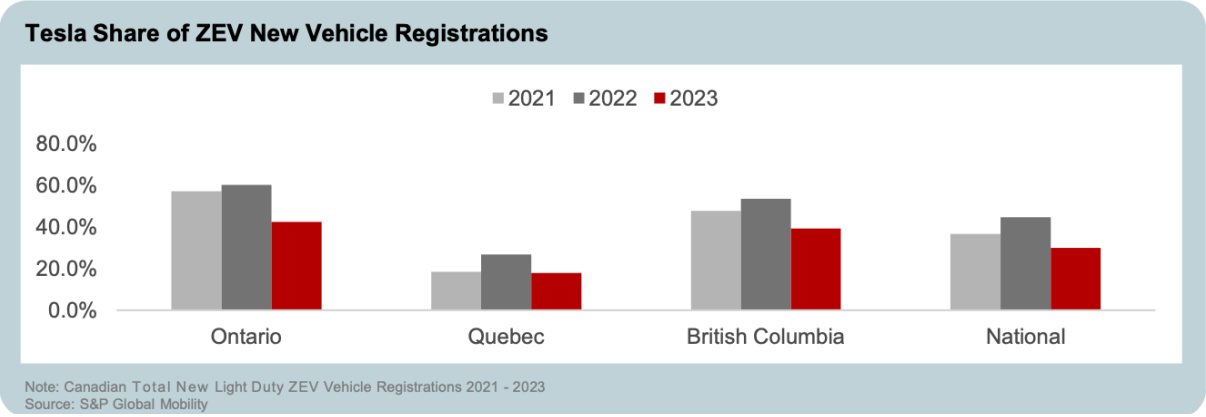
[11] Layson, G. More than minivans, Dodge Charger to be built in Windsor, Ont., analyst forecasts. *Automotive News Canada*. https://canada.autonews.com/production/new-dodge-charger-ev-built-windsor (2024); Introducing the all-new Dodge Charger. *Dodge*. https://www.dodge.ca/en/chargerreveal (2024).
[12] Atkins, E. Ford Motor Co.'s Oakville plant to turn out large gas-powered pickup trucks by summer of 2026. *Globe and Mail*. https://www.theglobeandmail.com/business/article-ford-motor-cos-oakville-plant-to-turn-out-large-gas-powered-pick-up/ (2024).
[13] Ford delays start of EV production at Oakville plant until 2027. *CBC News*. https://www.cbc.ca/news/canada/toronto/ford-delay-oakville-ev-plant-1.7163251 (2024).
[14] Atkins, E. Ford Motor Co.'s Oakville plant to turn out large gas-powered pickup trucks by summer of 2026. *Globe and Mail*. https://www.theglobeandmail.com/business/article-ford-motor-cos-oakville-plant-to-turn-out-large-gas-powered-pick-up/ (2024).
[15] Widdell, D. Honda building two EV crossovers, multiple new Ontario plants — auto analyst. *Windsor Star*. https://windsorstar.com/news/local-news/honda-building-two-ev-crossovers-multiple-new-ontario-plants-auto-analyst (2024); Honda plans to establish comprehensive electric vehicle value chain in Ontario, Canada. *Honda Canada News*. https://hondanews.ca/en-CA/releases/northwind-project (2024).
[16] Noble, B. GM Ontario plant to halt BrightDrop assembly from October into spring. *The Detroit News*. https://www.detroitnews.com/story/business/autos/general-motors/2023/09/15/battery-module-delays-halt-brightdrop-zevo-production-gm-ontario-plant/70869358007/ (2023).

Catharines[17]			to start in 2025; now **paused indefinitely.**
General Motors-Posco - Becancour, Quebec	Cathode active materials that will power the Chevrolet Silverado pickup truck and GMC Hummer EV	2025	No.
Umicore - Kingston, Ontario[18]	Precursor (pCAM) and cathode active materials	Paused indefinitely	**Yes.** Production was to start in 2026; now **paused indefinitely.**
Northvolt - Saint-Basile-le-Grand, Quebec[19]	Battery cells and cathode active material	2026	No, but Northvolt is currently **undergoing a "strategic review"** that will determine the timelines of its various projects.
Stellantis / LG Energy, Windsor, Ontario[20]	Battery cells	End of 2024	No.
Volkswagen -, St Thomas, Ontario[21]	Battery cells	2027	No.

Applying a high surtax could impact current EV sellers such as Tesla and Polestar, which both manufacture cars for the Canadian market in China, including Tesla's Model 3, one of the only affordable EVs available on the Canadian market. The Model 3 accounted for 18% of iZEV rebates in 2023 (which can be treated as a proxy for percentage of sales in the absence of model-specific sales data).[22] Raising the price of the Model 3 or reducing its availability in Canada, even temporarily, through tariffs could have significant impacts on EV uptake. Tesla

[17] Sawchuck, B. General Motors reassessing plan to build electric vehicle motors in St. Catharines. *The Standard.* https://www.stcatharinesstandard.ca/business/niagara-region/general-motors-reassessing-plan-to-build-electric-vehicle-motors-in-st-catharines/article_350ad608-7569-5b3f-8f0c-3a0b8adc3f8e.html (2024).
[18] Umicore confirms expansion of its EV battery materials production footprint with CAM and pCAM plant in Ontario, Canada. *Umicore.* https://www.umicore.com/en/umicore-confirms-expansion-of-its-ev-battery-materials-production-footprint-with-cam-and-pcam-plant-in-ontario-canada/ (2023).
[19] Northvolt says it will continue EV battery plant project near Montreal 'as planned'. *Automotive News Canada.* https://canada.autonews.com/electric-vehicles/northvolt-says-it-will-continue-ev-battery-plant-project-near-montreal-planned (2024).
[20] New NextStar Energy EV battery plant celebrates 'topping out' ceremony as construction reaches 30 per cent completion. *Stellantis.* https://media.stellantisnorthamerica.com/newsrelease.do?id=25576&mid=1 (2023).
[21] Volkswagen-backed PowerCo SE reaches significant milestone in St. Thomas gigafactory project. *Volkswagen Group Canada* https://www.newswire.ca/news-releases/volkswagen-backed-powerco-se-reaches-significant-milestone-in-st-thomas-gigafactory-project-882950896.html (2023).
[22] Kennedy, D. EXCLUSIVE: China-made EVs claimed 25% of federal ZEV rebates in 2023. *Automotive News Canada.* https://canada.autonews.com/electric-vehicles/china-made-evs-claimed-25-federal-zev-rebates-2023 (2024).

vehicles have historically played an outsized role in supporting EV uptake in Canada, accounting for up to 60% of sales in certain provinces in certain years (see graphic below).[23]



A high surtax could also keep other affordable Chinese-made EVs out of the Canadian market and reduce incentives for other OEMs to offer affordable EV models here in Canada. For example, there are already indications that the U.S.'s new tariff is making things harder for American drivers wishing to go electric. Sales of the Chinese-manufactured Volvo EX30—a compact new EV that was Europe's third-best-selling electric model last month—have been delayed in the U.S. until 2025 almost certainly because of the tariff.[24]

Finally, many North American automakers still rely on Chinese-made components, including batteries, in their supply chains. Applying tariffs to these could have further cost implications for Canadian consumers. For instance, American automakers are pressing the Biden administration to pause tariffs on Chinese graphite, arguing that prices for electric vehicles will go up if the levies are put in place too soon.[25]

Protecting Canadian jobs and workers is clearly an important priority, but securing these investments and ensuring Canada's EV workers will have good jobs far into the future also depends on strong and growing EV demand. And strong EV demand depends on building and offering EVs that Canadians want—and can afford. If Canadian EV sales drop as a result of poorly designed trade measures, the drop might be used as justification for canceling, delaying, or downgrading EV ambitions and production plans. Crafting a policy package that supports Canadian industries but also considers consumer affordability will, in the long run, be to our collective advantage. The federal government must ensure that, in attempting to protect autoworkers and our EV investments, we don't inadvertently undermine the market they're meant to serve.

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[23] Automotive Insights – Q4 2023 Canadian EV information and analysis. *S&P Global Mobility.* https://www.spglobal.com/mobility/en/research-analysis/automotive-insights-q4-2023-canadian-ev-information-and-analys.html (2024).
[24] Miller, C. Volvo EX30's U.S. arrival delayed until 2025, likely due to tariff. *Car and Driver*. https://www.caranddriver.com/news/a61426942/volvo-ex30-ev-us-delayed/ (2024).
[25] Ferris, D. & Northey, H. Biden tariffs spark fight over EV battery costs. *E&E News*. https://www.eenews.net/articles/biden-tariffs-spark-fight-over-ev-battery-costs-2/ (2024).

Risks violating World Trade Organization rules and will likely draw retaliation from China

Canadian legal experts indicate that high tariffs imposed under Section 53 may raise issues with WTO agreements and could draw retaliation from China, potentially exposing other sectors of Canada's economy to harm.[26]

A significant amount of trade in goods flows between Canada and China.[27] The total value of Canadian exports to China in 2023 was $30.5 billion, with our top five exports being: canola ($3.84 billion), coal ($3.04 billion), iron ($2.52 billion), chemical wood pulp ($2.21 billion), and copper ($1.58 billion). The Chinese market is particularly important to Western Canada, where B.C. is the largest exporter to China, totaling $8.07 billion in 2023 and Alberta and Saskatchewan rank second and third, "largely owing to their vast natural resource endowments and the dominance of raw materials in Canada's overall exports to China."[28] If Canada applies tariffs on Chinese-made electric vehicles, our top exports to China could be main targets of retaliation. Agriculture and livestock sectors in Prairie provinces are already expressing concerns about the risks of retaliation from China related to EVs.[29]

Canada also imports a significant amount of goods from China, the total value of which came in at $89.2 billion in 2023. Our top five imports were cellphones ($9.22 billion), computers ($6.56 billion), passenger vehicles ($2.64 billion), vehicle parts ($2.39 billion) and heaters ($1.84 billion). China could also retaliate against a Canadian tariff on Chinese-made EVs by curbing important exports to its trading partners, as it has already done with gallium and germanium, two minerals whose production Chinese firms control and which are crucial to electronics, including those in electric cars.[30]

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[26] Pellerin, W, et al. Charging forward on tariffs: the Government of Canada launches consultations on tariffs on Chinese electric vehicles. *McMillan LLP*. https://mcmillan.ca/insights/charging-forward-on-tariffs-the-government-of-canada-launches-consultations-on-tariffs-on-chinese-electric-vehicles/ (2024); Lamp, N. & Alschner, W. Why is Canada eyeing the nuclear option for tariffs on Chinese electric vehicles? *The Globe and Mail*. https://www.theglobeandmail.com/business/commentary/article-why-is-canada-eyeing-the-nuclear-option-for-tariffs-on-chinese/ (2024).

[27] Lincoln, D. Canada-China Trade: 2023 Year in Review. *The China Institute, University of Alberta.* https://www.ualberta.ca/china-institute/research/analysis-briefs/2024/2023-yearinreview.html (2024).

[28] Lincoln, D. Canada-China Trade: 2023 Year in Review. *The China Institute, University of Alberta.* https://www.ualberta.ca/china-institute/research/analysis-briefs/2024/2023-yearinreview.html (2024).

[29] Zapata, K. Alberta's agriculture sector worries about retaliation as Canada mulls tariff hikes on Chinese EVs. *CBC News.* https://www.cbc.ca/news/canada/calgary/agriculture-chinese-electric-vehicles-1.7247699?__vfz=medium%3Dsharebar (2024).

[30] The EV trade war between China and the West heats up. *The Economist.* https://www.economist.com/business/2024/07/10/the-ev-trade-war-between-china-and-the-west-heats-up (2024).

Recommendations to alleviate concerns

If the federal government moves forward with a tariff, Clean Energy Canada makes the following recommendations to alleviate the concerns detailed above.

Approach

Clean Energy Canada recommends that the federal government take an approach to a potential surtax (or other form of tariff) on Chinese EVs that aligns with the EU's approach, as opposed to the U.S.'s. The EU launched an anti-subsidy investigation last fall, then raised tariffs on a company-specific basis, increasing duties on BYD by 17.4% and on state-owned SAIC by 37.6%[31], for example. Canadian trade law experts have suggested this approach was designed to "stay within WTO rules" and "offset an unfair competitive advantage that Chinese companies have enjoyed because of the subsidizing" as opposed to "shield[ing] the European market from Chinese cars" altogether.[32]

Amount

Similar to the EU approach, any surtax rate should be established through a full Canadian International Trade Tribunal investigation and applied on an OEM-by-OEM basis according to the level of unfair subsidization each OEM received from the Chinese government to level the playing field for domestic manufacturers. Clean Energy Canada does not recommend a U.S.-style approach that applies a blanket tariff to all Chinese-made EVs.

Timing

If Canada decides to move forward with a surtax, we recommend that implementation timelines be carefully considered to allow EV manufacturers sufficient time to adjust their production plans. A grace period of at least 90 days should be provided before tariffs go into effect to allow vehicles currently in production and in transit to reach their intended destinations for customers who have placed orders, secured pricing and financing, and are now awaiting delivery. Without such a grace period, both customers and manufacturers would be unfairly penalized by a new surtax without any benefit to the domestic auto industry. A gap in EV availability could also compromise Canada's ability to meet its first legislated requirement that 20% of new cars made available for sale in Canada must be zero-emission in model year 2026.

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[31] Commission imposes provisional countervailing duties on imports of battery electric vehicles from China while discussions with China continue. *European Commision.* https://ec.europa.eu/commission/presscorner/detail/en/ip_24_3630 (2024).
[32] Rendell, M. Canada's trade and industrial policy in the balance as it contemplates Chinese EV tariffs. *The Globe and Mail.* https://www.theglobeandmail.com/business/article-canadas-trade-and-industrial-policy-in-the-balance-as-it-contemplates/ (2024).

Moreover, if the tariff is truly to level the playing field, it should be for a pre-specified period during which companies develop and implement plans to improve competitiveness. A tariff phaseout schedule released at the time the tariff is announced would offer the most predictability for industry planning and decision-making, and/or a period after which there is a review to determine if the trade measure is still needed.

Scope

Clean Energy Canada recommends applying any surtax on final assembly only to avoid higher costs of upstream EV-related materials and parts, higher costs of production, and higher EV prices for consumers.

Commitments from domestic producers benefitting from protections

The federal government must take a nuanced approach to designing any trade response so it balances the interests of Canadian industries, auto workers and consumers. Part of this approach should be to place conditions on domestic producers that would benefit from the tariff's protection.

Higher tariffs on Chinese EVs can be part of a sound strategy that protects Canadian workers while still allowing innovation and competition to thrive if they are temporary and contingent on actions taken by domestic producers that are in the interest of Canadians.[33] The following are the types of commitments the federal government should seek from domestic producers:

- Prioritize bringing more affordable EV models to the Canadian market.
- Help fill in Canada's charging infrastructure map by investing in charging infrastructure (for example, the joint IONNA venture made up of eight participating automakers to deploy 30,000 chargers across North America was first announced in July of last year and not a single charger has yet to be installed).[34]
- Support the workers and communities that rely on the industry, including by funding retraining and holding firm on announced EV production timelines.

Commitments from the Government of Ontario

Auto manufacturing accounts for 135,000 direct jobs in Canada, the majority of which (at least 124,000) are located in Ontario.[35] In exchange for tariffs on Chinese-made EVs—which will

[33] Bataille, C., Kaufman, N. Jain, G. & Saha, S. Biden's tariffs on Chinese EVs make sense—but only for a while. *Fortune*. https://fortune.com/2024/05/23/biden-tariffs-chinese-ev-tech-politics/ (2024).
[34] Toyota joins group of automakers to help build North American EV charging network. *Automotive News Canada*. https://canada.autonews.com/electric-vehicles/toyota-joins-rivals-ev-charging-network-joint-venture (2024).
[35] Important facts. *Canadian Vehicles and Manufacturers' Association*. https://www.cvma.ca/industry/facts/

disproportionately benefit EV battery plants and workers in Ontario at the risk of exposing other sectors in other provinces to Chinese retaliation—the federal government should seek a commitment from the Government of Ontario to introduce consumer EV rebates. Nearly all other Canadian provinces offer such incentives. Taking into account the US$7,500 EV tax credit available to all states, Ontario is now one of the most expensive places in North America to purchase an EV. The province's refusal to offer consumer rebates has resulted in levels of EV uptake that are below the national average (7% vs. 12.5%) and that pale in comparison to other provincial EV market shares like B.C.'s (22%) and Quebec's (25%).[36] It's time the Ontario government stepped up to help its drivers afford the upfront cost of an EV and unlock the cost-savings EVs provide.

Incentive Program Eligibility: The Incentives for Zero-Emission Vehicles (iZEV) Program

Concerns and expected impacts of potential eligibility restrictions under the iZEV program

Clean Energy Canada does not support excluding vehicles made in China from eligibility under the iZEV program or aligning our iZEV eligibility criteria with the eligibility criteria of the U.S. EV tax credit. Both approaches would limit the number of EVs eligible for the iZEV rebate, negatively impacting EV affordability in Canada and slowing EV uptake.

In 2023, a quarter of the ZEVs that received federal rebates came from China. Specifically, iZEV data shows that:

- 31% of vehicles to receive federal rebates in Canada came from the United States,
- 25% came from China,[37]
- 19% came from Japan, and
- 16% from South Korea.

Excluding Chinese-made vehicles could mean the two most popular iZEV models in 2023 could be excluded from the rebate program and become less affordable for Canadians. See the graphic below for more detail.[38]

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[36] Automotive Insights – Q1 2024 Canadian EV information and analysis. *S&P Global Mobility.* https://www.spglobal.com/mobility/en/research-analysis/automotive-insights-q1-2024-canadian-ev-information-and-analys.html (2024).
[37] The "overwhelming majority" of vehicles imported from China were Teslas. Polestar accounts for most of the other vehicle imports. Kennedy, D. EXCLUSIVE: China-made EVs claimed 25% of federal ZEV rebates in 2023. *Automotive News Canada.* https://canada.autonews.com/electric-vehicles/china-made-evs-claimed-25-federal-zev-rebates-2023 (2024).
[38] Kennedy, D. EXCLUSIVE: China-made EVs claimed 25% of federal ZEV rebates in 2023. *Automotive News Canada.* https://canada.autonews.com/electric-vehicles/china-made-evs-claimed-25-federal-zev-rebates-2023 (2024).

Similarly, an approach that allowed only North American-assembled vehicles to be eligible for iZEV would exclude 70% of the vehicles currently benefiting from the program. (Notably, the plug-in version of the Chrysler Pacifica minivan, assembled in Windsor, Ontario, is the only Canadian-made vehicle eligible for the iZEV program and it accounted for only about 1% of rebate claims, or roughly 1,500 vehicles, in 2023.)

The conditions placed on the U.S. EV tax credit are unduly restrictive and have resulted in a much shorter list of vehicles eligible for the full rebate. While there are more than 50 rebate-eligible EV models available in Canada today,[39] the U.S.'s regional content requirements have reduced the number of tax credit-eligible EVs to only 21 (13 qualifying for the full rebate amount and eight qualifying for a partial rebate amount).[40]

While the U.S. has historically lagged Canada on EV adoption, the gap in uptake has widened more recently.[41] The restrictive eligibility requirements attached to the U.S. EV tax credit may be contributing to this widening gap. The U.S. has committed to an aspirational target of 50% ZEV sales by 2030. Canada, meanwhile, has adopted legislated requirements of 100% by 2035. Given Canada's greater EV ambitions, we must take a measured approach that protects our auto industry while also keeping Canada on track to meet its EV and climate targets.

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[39] Eligible vehicles. *Transport Canada.* https://tc.canada.ca/en/road-transportation/innovative-technologies/zero-emission-vehicles/incentives-zero-emission-vehicles/eligible-vehicles (2024).

[40] Barry, K. Electric cars and plug-in hybrids that qualify for federal tax credits. *Consumer Reports* https://www.consumerreports.org/cars/hybrids-evs/electric-cars-plug-in-hybrids-that-qualify-for-tax-credits-a7820795671/#:~:text=There%20is%20no%20vehicle%20sales,credit%20began%20to%20phase%20out. (2024).

[41] McIntosh, J. Electrified vehicle sales growing faster in Canada than U.S. *Driving.ca.* https://driving.ca/auto-news/awards-surveys/ev-sales-electric-vehicles-canada-us-faster-study#:~:text=The%20volume%20of%20electrified%20vehicles,first%20four%20months%20of%202024. (2024).

Recommendations to alleviate concerns

Changes to iZEV eligibility requirements based on lifecycle emissions

One approach the federal government could explore to ensure the iZEV program is supporting EVs with the cleanest manufacturing footprints is to base iZEV eligibility and incentive amounts on the lifecycle emissions of each vehicle available for sale. France's "eco-bonus" EV incentive program applies this approach. Starting in 2024, the French government's incentive of €5,000-€7,000 will only be awarded to electric cars with a production carbon footprint below 14.75 tonnes of CO2.[42] Italy is reportedly also considering a similar approach.[43] North American automakers argue that they are cleaning up their supply chains and will be delivering EVs with much lower lifecycle emissions than countries like China. And with Canada's over 80% clean electricity grid, vehicles with maximum Canadian content would come out the furthest ahead. Moreover, instead of excluding vehicles on the basis of country of origin, a lifecycle emissions-based approach could incentivize countries and manufacturers to clean up their own supply chains.

What's more, we are currently faced with a significant lack of credible and verifiable information when it comes to lifecycle assessment of different gas, hybrid, and electric and plug-in hybrid vehicles. While this type of information would help guide consumer choices and improve government data on GHG emissions from supply chains, most automakers do not provide it. A rebate program with eligibility requirements based on environmental performance could encourage automakers to disclose emissions across their supply chains, while leveraging similar tracking and disclosure efforts from existing initiatives and requirements such as the Battery Passport Initiative, the U.S. tax credit's content requirements, France's lifecycle emissions standards and the EU Battery Regulation. Such information and the robust methodology that could be co-developed through global collaboration would support future corporate disclosure efforts as well.

A lifecycle emissions approach should be considered carefully, however, as it too risks significantly reducing the number of EVs eligible for the program and slowing EV uptake. France's new eligibility rules, for instance, excluded models accounting for 26% of French EV sales.[44]

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[42] Mathieu, L. France's eco-bonus shows how we can promote cleaner made-in-Europe EVs. *Transportation & Environment*. https://www.transportenvironment.org/articles/frances-eco-bonus-shows-how-we-can-promote-cleaner-made-in-europe-evs (2023).

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[44] Mathieu, L. France's eco-bonus shows how we can promote cleaner made-in-Europe EVs. *Transportation & Environment*. https://www.transportenvironment.org/articles/frances-eco-bonus-shows-how-we-can-promote-cleaner-made-in-europe-evs (2023).

Changes to iZEV eligibility requirements to offer a "bonus" incentive for local assembly

A second option the federal government could explore to further support domestic manufacturing is to offer an additional "bonus" incentive for vehicles assembled in Canada or North America. Quebec's Programme Écocamionnage, for instance, offers an additional 5-15% incentive for zero-emission medium- and heavy-duty vehicles installed, assembled or made in Quebec.[45]

Complement trade measures with an "EV affordability package"

To address affordability concerns, the federal government should complement its trade response with an "EV affordability package" that re-funds and extends the iZEV program until 2028 when more mainstream Canadian-made EVs are scheduled to come to market, and modifies the program to better target Canadians who need the most help going electric.

As of now, the iZEV program is currently set to end in March 2025—just under a year before the first EV Availability Standard requirements kick in. With other countries introducing or extending consumer purchase incentives—for instance, the U.S.'s consumer EV tax credit is available until 2032 and China just doubled its incentive for consumers who trade in their gas cars for EVs this month—Canada risks falling behind and losing EV inventory to other jurisdictions.[46] The program's popularity continues to grow, with iZEV claims doubling in the first half of 2024 compared to the same time last year.[47] The federal government should re-fund the program and extend it to 2028, two years after the EV Availability Standard has been implemented and when Honda's made-in-Canada electric crossover vehicles are set to hit the market (the electric Dodge Challenger, while expected to be available in 2024, is less likely to appeal to mainstream buyers).

The next iteration of the iZEV program should also be modified to ensure it is supporting affordable EVs and targeting Canadians who need the most help going electric. The federal government could explore gradually lowering Minimum Suggested Retail Price caps to $50,000 for two seaters, compact, mid-size and large cars, station wagons and SUVs, and $70,000 for mini-vans, small and standard pickup trucks and passenger, as B.C. has done, to encourage automakers to lower prices and introduce more affordable models. In response to B.C.'s MSRP

[45] Programme d'aide à la réduction des émissions de gaz à effet de serre dans le transport routier des marchandises – Écocamionnage. *Transports et Mobilité durable Québec.* https://www.transports.gouv.qc.ca/fr/aide-finan/entreprises-camionnage/aide-ecocamionnage/Documents/2022/Modalites-application_Ecocamionnage.pdf (2024).
[46] Credits for new clean vehicles purchased in 2023 or after. *U.S. IRS.* https://www.irs.gov/credits-deductions/credits-for-new-clean-vehicles-purchased-in-2023-or-after (2024); Ren, D. China doubles cash subsidies to propel EV sales as economic growth falls short. *South China Morning Post.* https://www.scmp.com/business/china-business/article/3271902/china-doubles-cash-subsidies-propel-ev-sales-economic-growth-falls-short (2024).
[47] Kennedy, D. Federal ZEV rebate claims doubled in 1st half of 2024. *AUtomotive News Canada.* https://canada.autonews.com/electric-vehicles/federal-zev-rebate-claims-doubled-1st-half-2024 (2024).

cap change, Tesla immediately reduced the price of its Model 3 and many other makes and models now come in under that price cap.[48] The iZEV program could also offer an additional $2,000 rebate for cars with MSRPs under $40,000 for income-eligible Canadians.

The federal government should also follow through on its 2019 and 2021 mandate letter commitments and make used EVs eligible under the existing iZEV program, offering up to $2,500 per vehicle. Offering rebates for used EVs would make the iZEV program accessible to more Canadians, since 40% of Canadians (including 47% of Canada's youngest drivers) intend to purchase a used vehicle as their next vehicle.[49] A federal used EV rebate could be stacked with other provincial and territorial incentives for used EVs for a combined significant discount.[50] While used EV prices have fallen 13.7% in the past year, according to Autotrader.ca, their sticker price is still higher relative to internal combustion engine vehicles.[51] For instance, the average used EV cost $47,840 in June, compared to the average cost of all used vehicles, including conventional gas models, hybrids and EVs, which was $36,342, during the second quarter.

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[48] John, D. Tesla lowers Model 3 prices in Canada. *Drive Tesla.* https://driveteslacanada.ca/news/tesla-lowers-model-3-prices-in-canada/ (2024); Find an eligible vehicle. *CleanBC go electric*. https://goelectricbc.gov.bc.ca/rebates-and-programs/for-individuals/find-a-vehicle-thats-right-for-you/ (2024).
[49] Malik, A. How the economy is influencing car buying. *Auto Service World* https://www.autoserviceworld.com/how-the-economy-is-influencing-car-buying/ (2023).
[50] British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Quebec and the Yukon all offer incentives for used EVs.
[51] Price Index - June 2024. *Autotrader.ca.* https://www.autotrader.ca/editorial/media/fsdh3ivd/2024-q2.pdf (2024).