ELECTRIC MOBILITY CANADA
ACCELERATING ELECTRIC TRANSPORTATION

MOBILITÉ ÉLECTRIQUE CANADA
ACCÉLÉRER L'ÉLECTRIFICATION DES TRANSPORTS

August 1st, 2024

Official EMC recommendations on Chinese built vehicles

Executive Summary

EMC's 180+ members including cars, trucks, bus and off-road vehicle manufacturers and union workers are fully aware of the sensitive nature of this consultation:

- On one hand, we want to ensure that Canadian workers, and our local EV supply chain investments, are protected from unfair labour practices coming from China;
- On the other, we want to ensure that Canadian consumers and end users have access to more affordable light, medium and heavy-duty EVs, and as much as possible, made in North America.

EMC and its members **suggest a targeted approach** that supports Canadian workers, innovation and our growing EV supply chain, while addressing Chinese labour and environmental practices that have an impact on the Canadian auto industry.

China holds a dominant role in the global smelting and refining of critical minerals, including most of the lithium and copper sourced from Chile and Australia. China also has a dominant position in battery technology and manufacturing. The global EV supply chain presently relies on this battery technology and certain components from China to function. China could take significant retaliatory action in response to an across-the-board surtax. Canadian tariff actions in this regard should not be taken arbitrarily.

If the Canadian Government decides to impose a surtax on electric vehicles manufactured in China, it should do so while taking into consideration the terms of the CUSMA as well as any other international trade agreement.

EMC recommends that any surtax be phased in and time limited to allow affected EV manufacturers sufficient time to adjust their production plans. This will also provide OEMs fair warning that they need to address issues of affordability and be prepared for competition.

This is why we recommend the following targeted action:

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ELECTRIC MOBILITY CANADA

MOBILITÉ ÉLECTRIQUE CANADA

For Light duty vehicles:

- Impose an import surtax on electric vehicles ***as well as*** gas and diesel vehicles assembled in China after having reviewed how China's practices have an impact on the Canadian auto industry. There is no environmental value to keeping out Chinese EVs but allowing Chinese assembled gas cars and light trucks to replace the EV stock.

- In exchange for this program, the Ontario government should be required to supply EV incentives for light duty vehicles to make sure that EVs are affordable in that province.

As a growing number of carmakers are starting to offer more affordable versions of EVs in other countries and in order to encourage affordable EV availability in Canada for Canadian consumers, we recommend that the federal government:

- Provides a 3-year relief period for automakers to offer more affordable EV alternatives. After that period, if an automaker does not offer any EV or PHEV at a 20% lower purchase price than it is offering right now for its electric and plug-in hybrid vehicles, it won't be eligible to any EV or PHEV rebate for any of its vehicles.

For Medium and heavy duty vehicles such as trucks, buses and school buses

We recommend that the government of Canada:

- Removes purchase incentive on MHD EVs assembled in China starting on January 1st 2027;
- Adds a 15% bonus to incentives like iMHZEV and CPTF for vehicles assembled in North America. This will help foster a positive approach and encourage companies to choose products developed with technology created in North America. The Quebec program Eco camionnage is proposing a similar approach that works well and contributes to support the manufacturing ecosystem.
- Imposes an import surtax on gas, diesel, EVs assembled in China, based on a review of China's subsidy practices and their impact on North America's vehicle manufacturing sector. There is no environmental value to keeping out Chinese EVs but allowing Chinese assembled gas or diesel trucks and buses to replace the EV stock;

SURTAX

Issues for consultation

Please provide views on the possibility of imposing a surtax on all or some of the products found in Annex 2 when imported from China. Specifically, views are sought on the scope of tariff lines covered, and the rate of a surtax.

1. If appropriate, the relevant eight-digit tariff item(s) and description of the goods of particular interest.

Surtax coverage

Any import surtax should be applied equally to internal combustion vehicles, as well as electric vehicles assembled in China, after having reviewed the impact of China's subsidization practices on the Canadian vehicle manufacturing sector. There is no environmental value to keeping out Chinese EVs but allowing internal combustion vehicles manufactured in China to replace the EV supply.

Do not apply a new surtax to vehicle components for the moment. As stated earlier, China continues to play a very important role in driving down the cost of clean energy technologies globally. Aspects of our supply chain are not yet established at commercial scale, such as battery cell and pack manufacturing operations, and battery materials processing.

2. Reasons for the expressed support for, or concern with, a potential surtax, including detailed information substantiating any expected impact.

The question of a surtax on Chinese EVs reveals the tension between environmental and industrial policy.

China currently is the world's processor-in-chief, smelting and refining a range of critical minerals, including most of the lithium and copper sourced from Chile and Australia. China also occupies a leading position in battery technology and manufacturing. If the Government of Canada is considering boxing out China from the Canadian EV market, it should carefully consider the potential implactions.

The Government of Canada committed to achieving net-zero emissions by 2050, with a plan not only for the environment but also for a clean growth economy. To meet these goals, Canada will have to innovate, not simply acquire from abroad. To that effect, we have seen the Federal Government and provincial governments investing significantly to retool the Canadian light, medium and heavy-duty automotive sector on an electric framework.

However, until the VW/PowerCo SE, Honda, Umicore, Stellantis/LG, and NorthVolt gigafactories and plant operations come online, Canada should carefully weigh the impact of potential reciprocal measures taken by China, as these projects remain conditional upont he provision ofkey EV components needed to power the EVs currently sold in the Canadian market.

3. If concern is expressed with respect to a potential surtax, please provide views on ways to alleviate such concerns.

Gradual implementation:

EMC recommends phasing in any surtax to allow time for North America's EV supply chain to mature and catch up. This will also provide OEMs fair warning that they need to be prepared for competition. If a new surtax is introduced, it should be reviewed annually to assess if it continues to meet its original objective.

If Canada decides to move forward with a surtax, we recommend that implementation timelines be carefully considered to allow affected EV manufacturers sufficient time to adjust their production plans.

The recommended January 1, 2025, implementation date would provide a grace period of at least 90 days 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, customers would be unfairly penalized by a new surtax without any benefit to the domestic auto industry.

Percentage of the surtax

Any decision by the Government of Canada to impose a surtax on gas, diesel or electric vehicles manufactured in China should be taken in accordance with our international obligations under the WTO, in consideration of the terms of the CUSMA as well as any other international trade agreement.

4. If appropriate, the potential impacts of a surtax on EV affordability.

We remain concerned about the affordability of EVs. In its *Global EV Outlook 2024*, *Moving towards increased affordability*, the International Energy Agency (IEA) states:

> "Electric cars remain 10% to 50% more expensive than combustion engine equivalents in Europe and the United States, depending on the country and car segment. In 2023, two-thirds of available electric models globally were large cars, pick-up trucks or sports utility vehicles, pushing up average prices."

Retaliatory steps that China may enact could result in higher costs for components, such as battery cells, and overall EV price, at a time where we are seeking affordability.

If Canada joins the US and EU in imposing tariffs, the most immediate effect could be to prevent Canadians from being able to buy some of the EVs manufactured in China that are selling at a competitive price. Longer term, by removing those vehicle options, the tariffs could slow EV adoption and force Canada to miss its climate targets, including the recently established regulation requiring all new cars to be zero-emissions vehicles by 2035.

As a growing number of carmakers are starting to offer more affordable EV models in other countries, in order to encourage manufacturers to supply affordable EVs to Canadian consumers, we recommend that the federal government gives a 3-year relief period allowing automakers to introduce more affordable EV and PHEV alternatives.

After that period, if an automaker cannot offer any EV or PHEV at a 20% lower purchase price than it is offering right now for its electric and plug-in hybrid vehicles, it won't be eligible to any EV rebate for any model.

If Canada arbitrarily imposes a surtax without considering its broader impact on the industry, the response risks jeopardizing the transition to electrification, missing our EV adoption targets, and our environmental goals.

5. The possible effect of how imported vehicles could interact with Canadian dealership networks, as well as repair and maintenance services.

Canadian consumers must have access to repair and maintenance services for EVs regardless of brand or country of origin. All vehicle retailers are obligated to seek "dealer licenses" in every province where they sell vehicles, whether they are OEM-owned or independently-owned. To obtain a dealership license, retailers must first demonstrate to the provincial registrar that they have the facilities, equipment and staff to service the vehicles they intend to sell. Provincial Motor Vehicle Dealership rules also apply to retailers of Chinese vehicles.

INCENTIVE PROGRAM ELIGIBILITY

Issues for consultation

Please provide views on whether to exclude zero-emission vehicles made in China from eligibility under the iZEV and/or iMHZEV programs, including views on how Canada should implement such a restriction.

As an *alternative* to implementing a surtax, we would recommend making Chinese imported ZEVs ineligible for the incentive as of January 1st, 2025.

1. Reasons for the expressed support for, or concern with, potential eligibility restrictions under the iZEV and/or iMHZEV programs.

- Firstly, the **iZEV and iMHZEV programs** should be continued to ensure affordability is a hallmark of the transition.
- Secondly, criteria for eligibility of models could be determined factoring in the carbon footprint of the vehicle's manufacturing process

For Light duty vehicles:

- Phase-in a surtax ***or*** remove purchase incentive on EVs assembled in China starting on January 1st, 2025.

For Medium and heavy-duty vehicles such as trucks, buses and school buses

Since this is a segment where the availability is more problematic in the short term, we recommend that the government of Canada:

- Removes purchase incentives on MHD EVs assembled in China starting on January 1st, 2027; and
- Provides a 5-year relief period for other truck and bus makers to offer more affordable EV alternatives. After that period, if a truck or bus maker cannot offer any EV or a PHEV at a 20% lower purchase price than it is offering right now for its most affordable MHDV, it won't be eligible to any EV or PHEV rebate.

Other areas of concern

IMPORTANT: 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 vehicles. Most automakers currently do not provide such information which would help guide both consumer environmental choices and government data on GHG emissions from the supply chain.

Demanding such important and strategic information would indirectly provide an advantage to vehicles that are manufactured using clean electricity, like those in Canada. Instead of just excluding other countries like China, it could incentivize them to do better to clean up their own supply chains… ***and basing the level of surtax on the environmental footprint would not interfere with current free trade agreements.***

2. Detailed information substantiating any expected impact, including on EV availability and affordability in Canada.

Ensuring the continuation of the **iZEV and iMHZEV programs, as well as supporting electric bus purchases through the CPTF** can address affordability issues. Availability of support depends on the response of the current OEMs that produce vehicles for sale in Canada. A commitment to switch over to and produce more EV models is needed from current OEMs and availability of these models in the Canadian marketplace needs to augment.

INVESTMENT

Issues for consultation
Please provide views on whether additional actions like further policy guidance, monitoring, or restrictions related to transactions and investment from Chinese sources in the Canadian EV supply chain are required or would be desirable to safeguard net-benefits to Canadians and Canadian national security.

Reasons for the expressed support for, or concern with, greater scrutiny or restrictions of relevant transactions, including detailed information substantiating any expected impact.

Cyber and data security issues in connected vehicles

Issues for consultation
Please provide views on this matter, including:

Connected vehicles have expanded the functionality of operating a vehicle or in the case of a business its fleet, forms the basis for a functioning overall electric mobility system. The concern is that technology in the connected vehicles can capture wide swaths of data or remotely disable or manipulate connected vehicles.

Canada should consider privacy and national security issues from a North American perspective in light of the integration of North American auto supply chains and our other obligations under CUSMA.

Canada should consider investigating the national security of connected vehicles using Chinese state-supported technology. This would inform Canada's response to the potential development of regulations to secure and safeguard the Information and Communications Technology and Services supply chain for connected vehicles.

As an example, between 2021 and 2024, Chinese officials had required Tesla to store all data collected by its cars in China, specifically in Shanghai, prohibiting the transfer of any such data back to the United States until it had met China's data security requirements. This demonstrates the risk for Canada is not to be taken lightly.

OTHER MEASURES

1. **The government is also seeking views on other potential policy responses that Canadians and stakeholders would like to propose, including proposal related to protecting Canada's broader EV supply chains, including steel and aluminum.**

   EMC also recommends that the government of Canada and other Canadian levels of government adopt clean procurement policies for the purchase of its electric vehicles, whether light, medium, or heavy-duty to buy zero-emission vehicles based on environmental footprint. This does not contradict free trade agreements and this situation represents the perfect opportunity to rely on such policies.