



EMC's response to consultations on potential surtaxes in response to unfair Chinese trade practices in critical manufacturing sectors

October 10, 2024

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.

Canada has invested significantly to build up a domestic electric vehicle supply chain industry. The economic, environmental, and security value of these investments will deliver good jobs with union wages. EMC and its members suggest a targeted approach that supports Canadian workers, innovation and our growing EV supply chain while addressing Chinese unfair practices that have an impact on the Canadian auto industry.

China currently 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 tariff. This would be combined with the adverse impact on Canadian consumers. Canadian tariff actions in this regard should not be taken arbitrarily.

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.

- **EMC recommends:** NO new tariffs on the import of EV batteries or battery parts sourced from China until we have developed our own North American EV battery supply chain.



Should the Canadian Government still move to impose tariffs on a range of battery parts and critical minerals produced in China:

- **EMC recommends:** That the Canadian Government adopt, *in advance of tariffs coming into force*, a framework to consider requests for tariff relief, to alleviate short supply and other exceptional circumstances faced by Canadian manufacturers.

If such provisions are not accommodated, Canadians will likely pay more for non-Chinese manufactured EVs that require access to certain Chinese manufactured battery cells and critical minerals. Manufacturers established in Canada presently lack the capacity to produce certain parts and materials in the EV supply chain. Furthermore, this will complicate the process for manufacturers to retool, change processes, or operating designs if access to a current parts supply is subject to tariffs. This action could directly threaten the Canadian jobs and affordability we are trying to protect and foster.

- **EMC recommends:** That any tariff be phased in and be time limited to allow affected EV manufacturers sufficient time to adjust their production plans. This will also provide OEMs fair warning to address issues of EV affordability.

Safeguarding Canada's nascent EV supply chain and ensuring EV affordability

The Government's stated goals of tariff measures is to:

- Ensure a level the playing field and ensure our domestic critical manufacturing sectors prosper in domestic and global markets and safeguard Canada's economic security interests.
- Ensure an adequate and affordable supply of products in critical manufacturing sectors to support Canada's transition to net-zero emissions by 2050.
- Ensure that Canada is not a potential destination for a surge of unfair imports from China resulting from the diversion of Chinese products from other markets that have recently announced trade protective measures.

These are laudable goals, however a blind adherence to tariff measures misses the impact on Canadian industry and Canadian consumers.

EMC's comments for this consultation pertain to the specific tariff categories in Annex 1: Batteries and Battery Parts; Semiconductors; and Critical Minerals. All these components play a key role in EV technology, manufactured of EVs... as well as many other everyday consumer products.

We must not lose sight of the fact that 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 tariff. This would be combined with the adverse impact on Canadian consumers. Canadian tariff actions in this regard should not be taken arbitrarily.

An area where Canada does have the opportunity for further economic gain, which could be impacted in the medium term, is in the EV battery recycling space. Once a battery is here and has been recycled and those elements form a new battery. Now, regardless of where the initial critical mineral comes from, or were smelted, or where the battery was manufactured, the new recycled battery would be deemed Canadian-made. Canada will be in a position to be manufacturing at scale, batteries for EVs in North America.

The global EV supply chain presently relies on this battery technology and certain components from China to function. Certain smaller EMC members are currently assembling battery modules with imported components. Combined with their own proprietary software configuration they are constructing Canadian-made automotive battery packs. Canadian battery manufacturers require access to lithium-ion sub modules. For these companies, it is very important they can keep importing battery parts without any tariffs to remain competitive.

Canada and the United States are now playing catch up with recent investments in the EV supply chain. EMC members are focused on establishing a globally competitive processing industry, enhancing manufacturing capabilities for advanced battery production, and promoting sustainable practices through a comprehensive battery recycling program. These efforts aim to position Canada as a leader in the global battery supply chain and contribute to a sustainable, net-zero future.

Apart from the identified Chinese state subsidies and industrial policy of over production, Canada is vulnerable to a surge of imports from China for two versus direct reasons:

1. Most legacy automakers in North America have so far refused to bring affordable electric vehicle models to the Canadian market.
2. Canada's and US nascent EV supply chains have not yet matured to the point of satisfying the needs of the EV industry.

The internal market in China is also fiercely competitive, and a price war has forced Chinese companies to go to ever-greater lengths to innovate and drive down costs.

Legacy North American automakers have relied on government support to offload the costs of electrification onto taxpayers while rewarding stockholders with share buybacks and dividend increases, Chinese automakers have instead used those subsidies to market affordable electric vehicles and thus accelerate EV adoption.

Despite a growing number of automakers starting to offer more affordable EV models in other countries, they are not available for sale here in Canada. Canada requires an industrial policy readjustment more than it needs the potential negative impact of tariffs.



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.”

The reality is that excessively high tariffs on Chinese battery parts helps the gasoline car industry at the expense of our climate ambitions and the EV industry’s chances of short-term competitiveness.

The cost of EV repairs (battery replacement) would be significantly higher with the new tariffs as there are tens of thousands of vehicles in Canada that have Chinese made batteries. A new tariff would mean an additional cost in the thousands of dollars for a new battery pack replacement.

Retaliatory tariffs, if not properly weighed or offset by remediating considerations, could result in increased cost for electric vehicles (including e-bikes and other electric mini- and micro-mobility vehicles), batteries, and battery cells. This potential effect, when combined with the new tariff on the import of Chinese EVs, means that Canadian consumers are further removed from affordable EVs.

Lastly, we want to reiterate that the EV availability standard requiring all new cars to be zero-emissions vehicles by 2035 is *essential* for Canada’s EV industry as it will ensure market predictability to the market and supply for Canadian consumers.

Contact Information

Electric Mobility Canada / Mobilité Électrique Canada
www.emc-mec.ca

Daniel Breton, President, and CEO

Email: Daniel.breton@emc-mec.ca

Phone: (514) 883-9274

Christopher May, Director of Advocacy

Email: christopher.may@emc-mec.ca