

# Building a competitive EV industry in Canada

Pembina Institute's comments and recommendations in response to policy consultation regarding unfair Chinese trade practices in electric vehicles

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The Pembina Institute calls for a potential policy response from Canada that will:

- Balance the interests of Canadian consumers and workers with the need for robust EV supply chains, taking into account affordability, environmental impact, competitiveness and innovation.
- Maintain and enhance funding of incentive programs as an important part of the policy response.
- Increase transparency of data and information while protecting privacy and security related to connected vehicles and interconnection of vehicles with Canada's electricity infrastructure.

The transportation sector represents 22% of Canada's total greenhouse gas emissions. With a 100% increase in carbon emissions from freight since 1990, medium- and heavy-duty vehicles and buses are expected to exceed the emissions from passenger cars by 2030. Canada's potential policy response needs to consider the full range of electric vehicles.

## Context

The Pembina Institute is a registered charity and national think tank that advocates for strong, effective policies to support Canada's transition to a prosperous and inclusive clean energy future. Through data-led research, analysis, and sector-wide engagement, our Transportation team finds solutions that put vehicle electrification within reach, with a strong focus on medium- to heavy-duty vehicle fleets.

The Pembina Institute welcomes the opportunity to provide input to Finance Canada on the issue of potential policy responses to unfair Chinese trade practices in electric vehicles (EVs). This is a complex and vital issue that cuts across the Government of Canada's policy goals of building a competitive auto industry in Canada *and* accelerating EV adoption among Canadian drivers and fleets.

The Pembina Institute is a member of Electric Mobility Canada (EMC) and supported the development of their submission. The following document includes a high-level summary of the key elements of that submission as well additional comments relating to Incentive Program Eligibility and Other Measures, and Cyber and Data Security Issues in Connected Vehicles. Our responses draw from our collected body of research. Further detail on actions that can be taken by government is available in our report, [Canada's Pathway to Net-Zero for Medium- and Heavy-Duty Trucks and Buses](#).

## Discussion and recommendations

### Surtax

Any surtax, if imposed, must be based on a robust review of the impact of China's subsidization practices on Canadian vehicle manufacturing sector, taken in accordance with international obligations, aligned with the Canada United States Mexico Agreement (CUSMA) and the actions of other key trading partners, while balancing the interests of autoworkers, Canadian manufacturers, and consumers.

The Pembina Institute is concerned about potential impact of a surtax on the affordability of EVs. We echo the EMC call for a limited and targeted surtax that also applies to gas and diesel vehicles. There is no environmental value to keeping Chinese EVs out of the Canadian market while allowing internal combustion vehicles manufactured in China to compete with domestic production (including EVs).

Any surtax should seek to protect the growing Canadian EV manufacturing industry from unfair trade practices while also allowing for competition to spur innovation and the creation of better products for the end user. This can be accomplished by introducing changes with clear milestones for implementation that allow for markets to prepare, while being time limited. We also urge the Government of Canada to consider that many manufacturers use Chinese-made intermediate products as components, and that some Chinese-made vehicles (especially in the medium- and heavy-duty vehicle sector) could be more appealing options for local users.

In assessing the scope of any surtax, the Government of Canada should consider impacts on affordability and environmental targets. In particular, further assessment is needed to understand how a surtax could impact access to lower-cost EVs among Canadian consumers and businesses, and Canada's ability to meet the goals for EV adoption set out in the Emissions Reduction Plan (100% of new light-duty vehicles are to be zero-emission by 2035 and 35% of total MHDV sales are to be zero-emission by 2030).

## Incentive program eligibility

The Zero-Emission Incentive Programs are critical components of the Government of Canada's efforts to encourage mass EV adoption across Canada and support affordability. While this consultation focuses on the application of incentives to Chinese-made vehicles, we urge the Government of Canada to focus on the broader issue of the current workability of these incentives, as well as related incentive programs to build EV infrastructure, specifically charging infrastructure. For example, the Incentives for Medium- and Heavy-Duty Zero-Emission Vehicles (iMHZEV) program is currently undersubscribed, having only disbursed about \$60 million of the \$547.5 million budgeted, while other programs like the Zero Emission Vehicle Infrastructure Program (iZEV) and the Green Freight Program are winding down or have run out of funding.

The Pembina Institute encourages continued development of existing and new incentive programs that use financial and non-financial eligibility criteria to support affordability, local production and the related jobs, and environmental objectives.

Incentive programs that specifically target affordability include eligibility criteria that encourage automakers to provide lower cost alternatives. Criteria could include lowering the EV incentive threshold as the supply of lower cost vehicles increases or establishing sales targets that require automakers to introduce more affordable alternatives. Examples of incentive components that support local production, jobs and environmental objectives are: bonuses for vehicles assembled in Canada, data and information related to labour and environmental practices, and incentive values based on lifecycle carbon emission reductions (favouring zero emission electricity grids).

Non-financial mechanisms can be used in conjunction with or instead of financial incentives programs. The zero-emission vehicle sales standard in the Electric Vehicle Available Standard gives car manufacturers credits for producing zero-emission vehicles and investments in charging infrastructure. Additional credits can be applied to support specific government objectives. Sales mandates and programming to support charging infrastructure can also meet the government objectives to balance affordability and support for Canada's EV industry.

## Cyber and data security issues in connected vehicles

The shift to a more digital and connected world creates great opportunities and opens new risks. This is an issue not only for imported Chinese EVs, but for all connected EVs. The Pembina Institute again supports the submission provided by EMC, focused on safeguarding businesses and individuals. In addition, EVs represent a unique challenge and opportunity to Canada's electric utility sector. New standards and regulations are needed as innovations, such as vehicle

to grid technology, expanding the nature of the interconnection between individual vehicles and the electricity system.

## Conclusion

The Government of Canada is committed to achieving net-zero emissions by 2050, with a plan to support both the environment and clean economy growth. In particular, the Emissions Reduction Plan aims to have 100% of new light duty vehicle sales be zero-emission by 2035, and a 100% of new medium- heavy-duty vehicle sales be zero-emission by 2040, where feasible. Electrification of transport — specifically light-duty cars and trucks, medium- and heavy-duty trucks, buses and school buses — delivers meaningful emission reductions, provides consumers and businesses with lower operating costs, improves air quality and reduces health impacts, and supports growing Canada's auto sector and the good-paying jobs it provides.

The Pembina Institute appreciates the opportunity to provide feedback on this issue. Our research has shown that sales mandates, purchase incentives, and investments in charging infrastructure are effective mechanisms for accelerating the adoption of EVs in Canada while building a robust domestic EV industry. Action is needed that protects Canada's EV industry from unfair trade practices while enabling competition that drives down cost and increases innovation. We recommend that the Government of Canada take a holistic approach, encouraging competition and innovation while supporting consumers and industry alike.