12 JUILLET 2024

# Is Canada Pulling the Plug on Chinese Electric Vehicles?

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***Traduction en cours.***

## Background

The Canadian government has prioritized the promotion of the domestic electric vehicle (EV) industry, with the objective of establishing Canada as a leader in the global end-to-end EV supply chain. This effort includes providing financial support and tax credits to manufacturers of EVs and inputs for EVs (e.g., batteries and components such as cathode active materials and precursors), as well as incentives to consumers to purchase EVs. The government views EVs as a strategic element of its plan to build an environmentally "clean future" for Canada.

The government is concerned, however, that its plans for the Canadian EV industry may be threatened by what it terms "unfair competition" from China, which it alleges is creating a global oversupply of EVs. Specifically, the government is concerned that China is using a broad range of "non-market policies and practices" to generate a global oversupply of EVs that will erode the profit incentives of EV producers in Canada. According to the Canadian government, these policies include extensive state subsidies, problematic or non-existent labour and environmental standards and other measures to artificially lower production costs. Distinct from these concerns, the government has raised the prospect that Chinese EVs could pose cyber and data security and privacy risks.

## Consultation and Proposed Measures

In reaction to this perceived threat, the Canadian government has announced a consultation process on potential policy responses to China's alleged use of unfair trade practices. The consultation process is scheduled to be open from July 2, 2024, to August 1, 2024.

According to this announcement, the government is considering the following policy measures to "level the field" and protect the growth of the Canadian EV industry:

i. imposing a surtax on Chinese EVs;

ii. excluding Chinese EVs from certain financial incentive programs designed to encourage EV purchases by Canadian consumers, such as the Incentives for Zero-Emission Vehicles Program and/or the Incentives for Medium- and Heavy-Duty Zero-Emission Vehicles Program; and

iii. adopting additional restrictions on Chinese investments in the Canadian EV supply chain beyond those already administered through the *Investment Canada Act*'s net benefit and national security review processes.

Apart from these specific policy measures, the government is soliciting information and views from interested parties on

- their experiences with the way Chinese subsidies and other measures are contributing to the oversupply of EVs;
- how information and communications technology and services developed, manufactured or supplied by persons subject to the jurisdiction or direction of China present risks to the privacy of Canadians, their data and Canada's national security interests, and how these risks might be alleviated; and
- other potential policy responses beyond the three identified above.

Finally, according to the government's announcement, any measures adopted following this consultation process will be reviewed within one year of implementation and could be extended for a further period and supplemented by additional measures, as appropriate.

## Implications

The EV industry is a strategic area of focus for the Canadian government—hence its concerns about the impact of Chinese conduct on the global supply of EVs. Canada is, however, not alone in harbouring these concerns. Both the United States and the European Union have similarly accused China of anticompetitive behaviour and both have taken protective measures in response.

In May 2024, for example, President Biden announced an increase in the tariff rate on Chinese EV imports—to 100%, from 25%—citing the need "to protect American workers and American companies from China's unfair trade practices." The U.S. government has also launched its own public consultation process regarding the potential development of regulations to safeguard data and information in connection with EV vehicles.

Likewise, following an EU investigation on Chinese subsidies for EVs, the European Commission declared that it would impose extra duties of up to 38.1% on Chinese EV imports, though these duties remain provisional until November 2024.

Indeed, one of the Canadian government's objectives in launching its consultation is to ensure that Canada acts in concert with the United States and the European Union on this matter.

As noted above, the Canadian consultation period closes on August 1. It remains to be seen what responsive measures the Canadian government will adopt—and how the Chinese government may react in turn.

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