

ECCC Consult on Possible Additional Measures Needed to Achieve a Mandatory ZEV Sales Target of 100% by 2035

Submission by Unifor

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About Unifor

Unifor is Canada's largest union in the private sector, representing 315,000 workers across the country in nearly every identifiable sector of the economy. Unifor is the predominant union for workers in Canada's auto industry, representing 40,000 workers in auto assembly, parts and vehicle dealerships. Unifor advocates for all working people, fights for equality and social justice in Canada and abroad, and strives to create progressive change for a better future. Founded in 2013, Unifor strives to be a different kind of union, tackling social issues such as environmental sustainability, racism, reconciliation, and violence against women, among others.

Introduction

Unifor welcomes the opportunity to provide additional feedback to the Government of Canada, through Environment and Climate Change Canada, on proposed measures to support its net zero ambitions. This includes feedback on the government's stated objective to ensure that Zero Emission Vehicles (ZEVs) account for 100% of 2035 light duty car sales in Canada.

On January 11, 2022, Unifor participated in an online consultation along with auto industry stakeholders. The views expressed here consolidate Unifor's position on the various questions and proposals tabled during the consultation.

Considerations for Canada's Accelerated Timetable of ZEV Adoption

In previous rounds of consultation and dialogue with federal officials, Unifor stated¹ its qualified support for the implementation of a federal ZEV mandate. It is important that Canada meets its GHG-reduction goals. However, there is scant evidence pointing to sales mandates as an equally effective policy lever as robust fuel economy standards, when it comes to incentivizing ZEV adoption². Nevertheless, it is the union's view that any effective supply-side policy, intended to drive consumers to purchase zero emission vehicles, must connect to a broader, more holistic set of 'demand-side' policies that support and motivate ZEV adoption.

In Unifor's view, such policies must include, among others:

- Investments in required infrastructure (such as a wider network of accessible and fast-charging stations³);
- Targeted skills and transition supports for workers;
- Significant consumer purchase incentives (including a more ambitious iZEV credit, old-vehicle trade-in program);
- Consumer awareness measures; and
- Mandatory end-of-life vehicle and battery recycling requirements.

With regard to policies designed to accelerate consumer uptake in ZEVs, a holistic approach to supply-side policy must recognize, and take guidance from, Canada's broader industrial development ambitions in the auto sector and its burgeoning EV supply chain.

The auto sector is facing an historic transformation. Many expect the shift to alternative, emissions-free propulsion systems to have a profound affect on jobs and investment in the sector⁴. Fewer parts needed to produce an electric powertrain, for instance, will have a disruptive effect on jobs along the supply chain.⁵

As automakers allocate more resources into new ZEV product programs (and fewer parts-related programs), governments around the world are clamouring for the investments – to both secure high-skill, high value jobs, as well as to buffer against the pending decline in internal combustion engine related production.

¹ Unifor submission to Government of Canada consultation, Toward a Zero-Emission Vehicle Future (April 23, 2021), as well as testimony to the House of Commons Standing Committee on Environment and Sustainable Development, that informed the April 2021 report entitled: The Road Ahead: Encouraging The Production And Purchas Of Zero-Emission Vehicles In Canada

² See Bloomberg NEF Zero Emissions Vehicle Factbook (pp 22-23), outlining market influencing policy measures in the EU: https://assets.bbhub.io/professional/sites/24/BNEF-Zero-Emission-Vehicles-Factbook_FINAL.pdf

³ CVMA estimates that to reach Europe's target of one charging station for every 10 on-road EVs, Canada will need to build 4 million charging stations by 2050. See: <https://canada.autonews.com/electric-vehicles/canadas-ev-charging-goals-not-ambitious-enough-says-cvmas-brian-kingston>

⁴ For a good summary of various studies assessing the structural differences of ICEVs and EVs, read: The Impact of EV Production on the Automotive Manufacturing Supply Chain: Sources, Methods and Findings, prepared for the Future of Canadian Automotive Labourforce (FOCAL) initiative: <https://www.futureautolabourforce.ca/wp-content/uploads/2021/10/EV-Report-Final-Oct-4.pdf>

⁵ *Ibid*, pp 18-20

What explains the rush toward new investment is that the auto sector is a critical driver of economic activity and good jobs. Prior to the COVID pandemic, for instance, the auto sector contributed \$16 billion to Canada's GDP and was the number one source of manufacturing exports.⁶ The sector also employs nearly 130,000 workers directly, many of whom are union members. Decent wages, won by unions, help further drive economic activity. Autoworkers' wages in 2019 contributed \$8.7 billion to the Canadian economy. Auto assembly wages are nearly 30 per cent higher than the national average for all workers⁷.

The economic might of Canada's auto sector cannot be understated. Therefore, the federal government must understand the twin goals of the transition toward zero emission vehicles: on the one hand, net emissions reduction from light duty passenger vehicles; on the other, job growth and retention in a burgeoning ZEV industry.

Fortunately, Canada is moving in the right direction. Early-stage investments in ZEV auto assembly announced in 2020 and 2021 by Ford in Oakville, Stellantis in Windsor, and General Motors in Ingersoll⁸ is positive news. Current (and still tentative) forecasts⁹ suggest that model year 2026 is when the first of these Canadian-built BEVs will hit showrooms. If forecasts are correct, there will be three Canadian-assembled light duty BEV models available for purchase at that time (not counting hybrid models of the Chrysler Pacifica and Lexus NX).

Additional announcements for new ZEV product programs (including for battery production and other critical parts), we hope, are on the horizon. Unifor expects that Canadian production will continue to feed both the U.S. and Canadian markets, primarily. However, it is imperative that federal plans to pursue interim ZEV sales targets fully reflects Canada's place in the sales market. There is little strategic value to mandate sales of ZEVs supplied only from facilities outside of Canada. A disconnection between investment and economic development strategy and sales mandates is indicative of policy incoherence, likely resulting in criticism and political pushback – including by those in auto-producing regions of the country.

⁶ Unifor Research, Canadian Auto Industry Fast Facts (compilation of various economic and community data sources), (2020)

⁷ Ibid

⁸ Investments in electric vehicle production at the CAMI Assembly Plant in Ingersoll, Ontario target the growing commercial van market, and likely excluded from any LDV sales mandate imposed by federal and provincial governments. For more details, see:

<https://media.gm.com/media/us/en/gm/news.detail.html/content/Pages/news/us/en/2021/jan/0114-cami.html>

⁹ Forecasts provided by Ward's Automotive/LMC Automotive, North American Product Cycle Chart (January 5, 2022): <https://wardsintelligence.informa.com/datacenter> (subscription based)

Re-stating General Cautions of Supply-Side Policies to Drive Consumer Behaviour

In the months following its 2021 stakeholder consultation, the federal government announced a revision to its ZEV sales mandate. As it stands, the federal government is mandating 100% ZEV sales among new light-duty vehicle purchases by 2035 (and 50% sales by 2030) – an ambitious approach that represents the upper bound of ZEV sales targets in comparable jurisdictions¹⁰.

As stated above, Unifor offers qualified support for the introduction of such mandates. Unifor also believes the pace at which such sales mandates apply, must take into consideration Canada's production footprint – ensuring that the federal government is not putting domestic facilities (and the products built by Canadian auto workers) at a competitive disadvantage to those in other jurisdictions.

In its April 23 submission, Unifor also presented key concerns about this supply-side approach to drive the EV sales market – concerns that are worth repeating here.

- **Bolstering EV supply will not address demand-side issues.** Despite promising signals of EV sales resilience during the COVID-19 crisis, and an early year-over-year bump in U.S. market share, EV adoption still represents a small fraction of the car sales market. Confidence in battery life, infrastructure supports (e.g. charging stations) and cost of ownership will drive adoption (as will greater exposure to the technology), but this will take time. Forcing car-buyers to make unwanted purchases of vehicles may potentially slow new sales, keeping older, ICE-powered cars on the road for longer – limiting the effectiveness of the sales mandate policy. Worse, and without the added “holistic” supports mentioned above, such measures may cause consumer backlash, threatening to upend the vital transition to ZEVs.
- **Demand-inducing policies for car-buyers today are not realized until years down the road.** The average vehicle lifespan in Canada is approximately 12 years.. This suggests there may be significant lag time in any policy measure to incentivize ZEV adoption. Despite major new EV announcements over the past 24 months, zero-emission LDVs still represent a fraction of overall fleet mix.
- **Costs are still relatively high, discouraging car-buyers.** Estimates may vary, but there is no denying the disproportionate share of EV powertrain costs on the consumer price of the vehicle, with battery packs representing approximately one-third – and total powertrain representing about one-half – of point-of-sale cost. Battery pack costs are declining, significantly, with some expectations of price parity with ICE vehicles by 2023, although contingent on multiple factors, including the price of material inputs (which have risen sizeably in recent years). Federal and provincial ZEV rebates help offset these costs, but are under-utilized in Canada currently, with programs existing only in B.C. and Quebec. Further, without meaningful and consistent consumer incentives provided across Canada

¹⁰ Bloomberg NEF Electric Vehicle Outlook forecasts that EVs will represent approximately 70% of new car sales in the US and Canada by 2040.

(including, potentially, for ZEVs available in the used car market), ZEV purchases will be out of reach for most middle-to-low income car-buyers for the near future.

Getting To 100% ZEV Sales by 2035 – Recommendations to Consider

Considering the range of question posed by federal officials, first, during its December 17, 2021 consultation session and again during the January 11, 2022 stakeholders' call, Unifor provides the following recommendations to consider.

1. Ensure ZEV sales mandates coincide with Canada's domestic production timetable.
 - The federal government must clearly, and publicly, recognize the twin objectives of expanding ZEV sales and supporting the development, and transition, of Canada's domestic auto industry;
 - With no Canadian-built BEVs for sale, according to current forecasts, until model year 2026, any decision to introduce interim sales targets (prior to 2030) must be voluntary.
2. Any supply-side regulations must match demand-side incentives.
 - To overcome the cost barrier to new ZEV adoption, the federal government (in conjunction with provinces) must look to establish a more ambitious, and fairer, iZEV incentive program. This includes:
 - Increasing the iZEV incentive to \$7,500
 - Introducing a dynamic, income tested iZEV subsidy once ZEV market penetration for LDVs hits 50% (i.e. at this point subsidies will be unavailable to those with incomes over \$200,000; available at 50% for those with incomes over \$100,000, etc.)
 - Establish a 50/50 cost-share incentive, with OEMs, to provide an additional \$2,000 trade-in incentive for older, gas-powered vehicles, starting in 2025.
3. In coordination with provinces, structure ZEV sales mandate in a way that incentivizes automakers to pursue other national sector development goals.
 - Under a credit-accrual compliance mechanism, governments shall provide additional credits to those automakers (to help them meet their ZEV mandate compliance goals) that demonstrate commitments to domestic ZEV value added, including assembly, and parts production (including battery cells);
 - Governments shall also consider providing additional credits to automakers for utilizing domestic end-of-life recycling facilities.

4. Establish national ZEV production targets, alongside vehicle sales targets.
 - To better demonstrate the twin objectives of Canada's broader ZEV strategy (consumer adoption and industrial development), the federal government can establish clear benchmarks for the expected growth of Canada's clean auto production, by setting targets for ZEV, ZEV powertrain and associated critical parts production, following the lead of the Ontario government.
 - The federal government may choose to negotiate production covenants with each OEM that is coordinated with the sales mandate, production-credit system as outlined above.
5. Require all automakers to submit, for approval, a Supply Chain Code of Conduct, committing them to source critical ZEV materials from ethical suppliers (those that recognize core international labour conventions and standards, including on the use of forced labour or child labour).
 - Such a commitment will help further operationalize the federal government's ZEV sales mandate, aligning it with other broad economic and social development objectives, and may lead to the disqualification of any vehicle (or OEM) from a credit-trading scheme in the event of a Code of Conduct breach.

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