Canadian Industrial Policy: EVs and the auto sector

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The Challenge

How can we make Electric Vehicles (EVs) cheaper and more abundant in Canada while protecting our domestic auto industry?

- Canada needs rapid EV adoption, but current prices keep mass adoption out of reach.
- Domestic production alone cannot supply affordable EVs in the short term.
- Protecting auto jobs conflicts with opening the market to cheaper imports.

The Policy Trilemma

Protect Industry

Protect auto employment
Avoid trade retaliation
Limit foreign competition

Affordable/Availability

Cheapest vehicles available
Open to global supply
Mass consumer uptake

Green

Rapid electrification now
Emissions-driven adoption
Imports fill supply gap

Current Policy Landscape

The Government has recently completed trade deals and announced a new auto sector strategy.

Electric Vehicle Availability Standard (EVAS) repealed	EVAS mandated 100% zero-emission vehicle (ZEV) sales by 2035; Gov't now expects 75% EV sales by 2035 without mandate.
EV Affordability Program	5 year, $2.3 billion program that will offer up to a $5,000 subsidy per EV/plug-in hybrid purchase, with a $50,000 rebate cap.
Stronger Vehicle Emissions Standards	New government standard is aiming for 57% reduction in tailpipe carbon pollution: The target is now 74 grams CO_2e per mile instead of 172 grams CO_2e per mile.
Supply Side Measures	These include reduced corporate tax rates for zero-emission technology manufacturers and an investment of $1.5 billion into Canada's EV charging network.
Trade Deal with China	Import quota of up to 49,000 EV vehicles from China with a lowered tariff rate of 6.1%; down from a previous rate of 100%.
Tariff Response	Up to $3 billion allocated from the Strategic Response Fund to help the auto sector diversify and adapt, counter tariffs on U.S. auto imports maintained.

Key Stakeholders

01
Federal Government
Sets tariffs, subsidies, emissions standards & trade policy

02
Ontario Auto Sector
Automakers & workers most exposed to trade disruption and EV transition

03
Canadian Consumers
EV affordability and availability determine whether adoption targets are met

04
Provincial Governments
Ontario & Quebec co-fund industrial strategy and battery supply chain investment

05
U.S. Trade & Industry
Counter-tariffs and $3B Strategic Response Fund reflect live cross-border tension

Key Considerations

Mapped by political vs. economic dimension

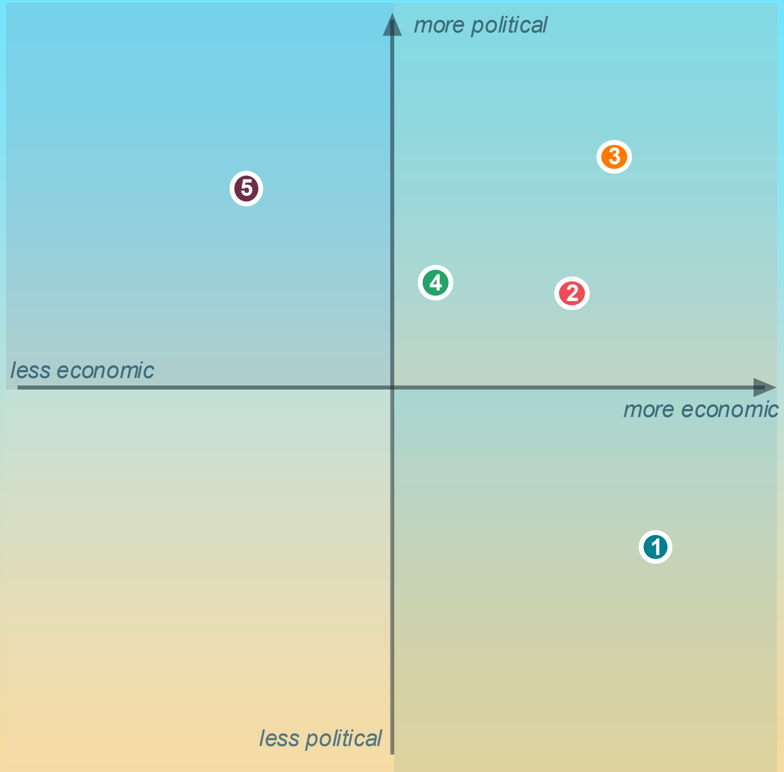
1 — EV Affordability Barrier
The defining constraint; quota alone won't solve it

2 — Quota's True EV Market Share
~20–30% of EVs; far larger than the 3% headline claim

3 — Diverging from U.S. Alignment
Broke 60 years of Canada-U.S. integrated auto policy

4 — Auto Jobs Need More Than a Cap
Short-term tariff fund vs. long-term EV retooling investment

5 — Trade Diversification Is Now Strategic
92% of auto exports to U.S.; canola retaliation forced Canada's hand



Policy Options Moving Forward

Mapped on a state-led to market-led policy spectrum

◀ STATE-LED ★ RECOMMENDED MARKET-LED ▶

STATUS QUO

Renew the China Quota

Maintain the 5-year deal; renegotiate on expiry

KEY LEVERS

- 49,000-unit quota growing to ~70,000 by 2030
- Existing $2.3B demand subsidies and charging investment retained
- No new structural mechanism for domestic industry

KEY RISK

Window closes in 2030 with no structural change; Canada remains dependent on periodic renegotiation

OUR PROPOSAL

Conditional Industrial Strategy

Subsidies tied to benchmarks; quota expands automatically if targets are missed

KEY LEVERS

- Production benchmarks with independent oversight (e.g. volume, price point, Canadian content)
- Quota automatically increases if benchmarks are missed — market pressure as enforcement
- Grounded in South Korean conditionality model and TFP empirical evidence

KEY RISK

Political pressure to waive escalation trigger; requires genuinely independent benchmark oversight

ALTERNATIVE

Multilateral Supply Diversification

Preferential EV access from Korea, Japan and EU alongside China deal

KEY LEVERS

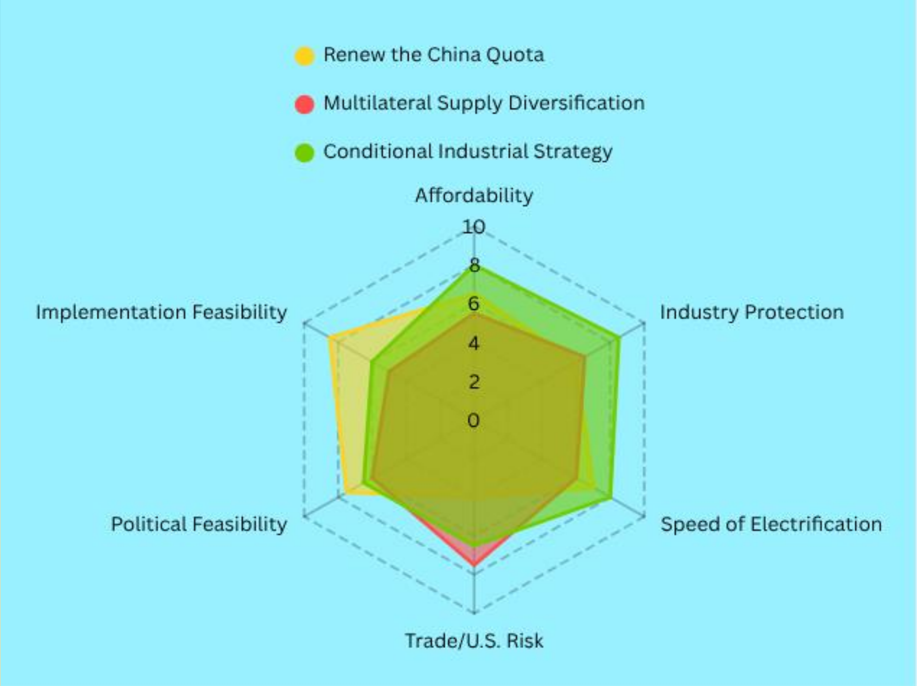
- Negotiate EV trade terms with Hyundai/Kia (Korea), Honda/Toyota (Japan), VW/Stellantis (EU)
- Reduces geopolitical concentration risk; no single-partner dependency
- Compatible with CUSMA; lower sovereignty risk than deeper China ties

KEY RISK

Slower to materialize; still no competitive pressure on domestic producers

Decision Matrix

	Policy Options		
Evaluation Criteria	Renew the China Quota	Multilateral Supply Diversification	Conditional Industrial Strategy
Affordability	6.5	5.5	8
Industry Protection	6	6.5	8.5
Speed of Electrification	7	6	8
Trade/U.S. Risk	4	7.5	6.5
Political Feasibility	7.5	6	6.5
Implementation Feasibility	8.5	5	6
Total	**39.5**	**36.5**	**43.5**



Why Our Recommendation

Decades of support, zero affordable EVs delivered.

Note: Lower scores on Political Feasibility and Trade Risk in the decision matrix reflect a policy that **makes hard choices rather than deferring them.**

1

THE TRACK RECORD

The Industry Has Not Delivered

- North American automakers have received protection and subsidy under various forms since the 1965 Auto Pact. The result: not a single mass-market affordable EV.
- The F-150 Lightning starts at ~$60,000 CAD. Stellantis extracted a $15B public commitment, then moved its Jeep production to Illinois.

Promise investment. Receive subsidy. Delay or underdeliver. Repeat.

- Firms' actions reveal their preference: with no enforcement mechanism, stock buybacks, not EV investment, have been the consistent choice.

2

THE THEORY

Conditionality Is What Separates Policy from Welfare

- Successful industrial policy, such as South Korea, Taiwan, and post-war Japan, all share one differentiating factor: the state was willing to withdraw support and introduce competition if benchmarks were missed.
- Canada has consistently delivered the subsidy half but never the conditionality half. The escalating quota is the missing enforcement mechanism.
- Critically, the trigger is **pre-committed** — removing the need for political will at the moment of enforcement, when lobby pressure is highest.

3

THE CONTEXT

The Continental Foundation No Longer Exists

- A pure domestic EV strategy previously made sense partly because it could rely on U.S. economies of scale and shared supply chains. That world is gone.
- The U.S. is now hostile to green industrial cooperation. The $3B Strategic Response Fund is a defensive measure, but it is not building anything new.
- Building a full EV supply chain from scratch, without that continental base, in a decade, is not realistic. Forcing the **existing industry to finally deliver** under credible threat is.

Why Not the Other Options

Each option has a specific & disqualifying flaw; they defer the structural change needed to make Canada's EV industry competitive.

OPTION A — STATUS QUO

Renew the China Quota

REJECTED

Structurally inert by design

The quota is a managed import ceiling, not a reform mechanism. Renewing it simply resets the clock without creating any obligation on domestic producers to change behaviour. In 2030, Canada faces the same question again, but from a weaker position.

Affordability remains deferred

No sub-$35,000 vehicles are required until 2027, and even then, they're only 10% of the quota. The deal's affordability gains are back-loaded and easily renegotiated away. Canadian consumers remain priced out of the EV market in the near term.

Geopolitical dependency is hardwired in

Permanent renewal locks Canada into a recurring negotiation with China as the price of EV supply. This gives Beijing leverage that it has already demonstrated it will use, as with canola.

OPTION B — ALTERNATIVE

Multilateral Supply Diversification

REJECTED

No enforcement mechanism, same problem

Diversifying import sources spreads geopolitical risk but applies no competitive pressure on domestic producers. Korean and Japanese automakers bring their own high-price models. Without a conditionality trigger, the domestic industry faces no incentive to change.

Slowest path to affordability

Multilateral negotiations with Korea, Japan, and the EU are slow, complex, and contingent on their own industrial policy agendas. Price competition would be more modest and slower to arrive than under a deepened China arrangement or a domestic production push.

Diplomatically ambitious but analytically incomplete

This path is a trade strategy, not an industrial strategy. It manages where EVs come from without addressing whether Canada can ever produce them competitively. That question cannot be deferred indefinitely.

CONCLUSION

The Window Is Open. Use It.

→ The China quota is a five-year bridge, not a destination. Canada must decide what comes after it before the window closes in 2030.

→ The domestic auto industry has never faced a credible enforcement mechanism. A conditional industrial strategy with an escalating quota trigger is the first policy that provides one.

→ The U.S. partnership that once made a pure domestic strategy viable is gone. Canada must act on its own terms, using market pressure as the engine.

Produce affordable EVs or face the competition that will.

Q&A

Questions & Discussion

Industrial Policy Team

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