

**Written Submission for the Pre-Budget Consultations in  
Advance of the Upcoming Federal Budget**



**Canadian Vehicle Manufacturers' Association**

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## **List of Recommendations**

- Recommendation 1:** Repeal the federal EV mandate.
- Recommendation 2:** Re-establish trade certainty for Canada's automotive manufacturers.
- Recommendation 3:** Augment Canada's competitiveness for automotive investment to maintain manufacturing and research footprint.

**Recommendation 1: Repeal the federal EV mandate.**

The CVMA urgently recommends the repeal of the federal ZEV mandate (known as the Electric Vehicle Availability Standard) to mitigate risk to the domestic industry and the hundreds of thousands of Canadians it employs. To comply with the regulation's 2026 requirements, automakers are now being forced to limit internal combustion engine (ICE) and hybrid vehicle sales in Canada and/or purchase credits from automakers, including Tesla, none of which produce vehicles in Canada.

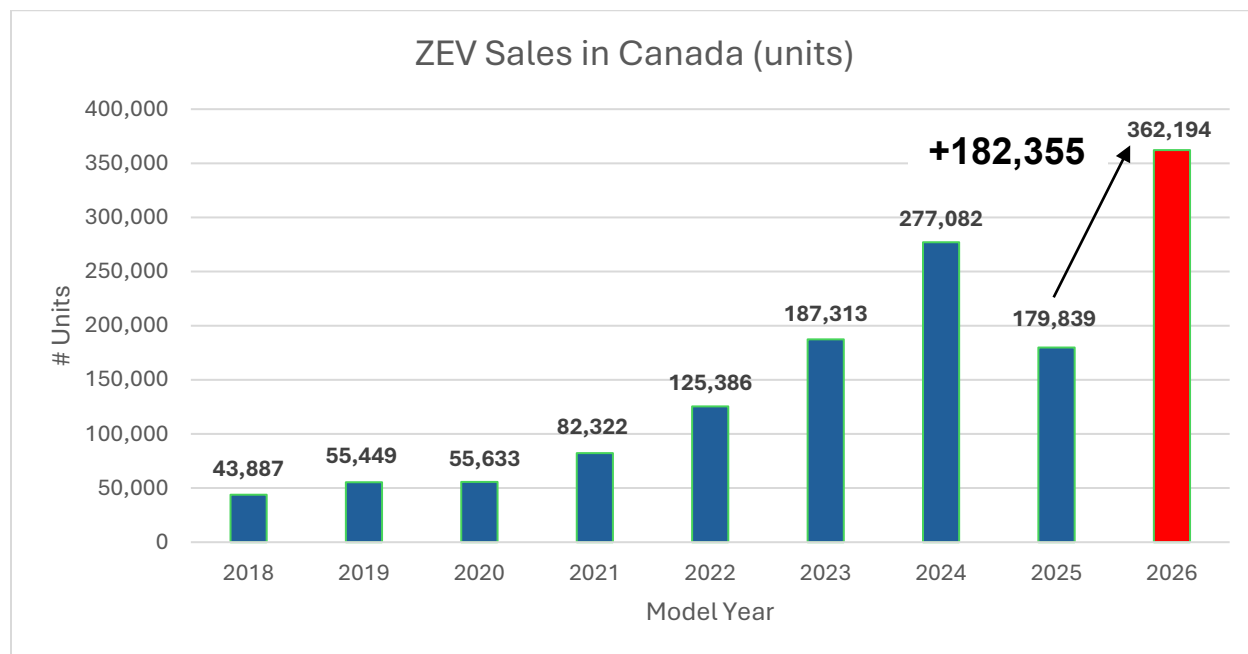
The resulting impact will be fewer vehicles available, higher vehicle prices for Canadians, and fewer jobs in the sector. It will also undermine consumer affordability and choice at a time of rising costs, limited demand, and growing uncertainty about charging infrastructure readiness.

Repealing the mandate will not jeopardize Canada's environmental objectives. Existing Light Duty Vehicle (LDV) GHG emissions regulations require year-over-year vehicle emissions reductions that necessitate zero emissions solutions including battery electric, hybrid, plug-in hybrid, and extended range electric vehicle technologies. Canada's light duty fleet is on track to meet or exceed Canada's GHG emission reduction goals by 2035 with the existing Canadian GHG vehicle emissions regulations.

The automotive industry is committed to decreasing emissions and increasing electrified vehicle adoption. Our members, Ford, General Motors and Stellantis, have made unprecedented investments in emissions reducing technologies and ZEV manufacturing across North America, including nearly \$15 billion in Canada. Canadians now have access to over 100 different ZEV models in every size and segment. According to Transport Canada's most recent assessment of ZEV availability, ZEV inventory levels are now meeting or exceeding consumer demand across Canada.

Despite ZEV availability, sales have collapsed in recent months, falling to just 8.7% of light duty vehicle sales in May of 2025 [see Figure 1, below]. There is no pathway to achieving the federally mandated ZEV sales requirement of 20% in the 2026 model year. The current industry forecast for 2025 is 9.7% ZEV sales, representing 179,839 units. To meet the government's 20% mandated target for 2026, ZEV sales need to grow by over 100% or 182,355 units.

Figure 1<sup>1</sup>



Numerous factors have made the mandated targets impossible to achieve including weak consumer demand, affordability challenges, limitations of ZEV technology across vehicle segments and use cases, infrastructure shortfalls, slow adoption by commercial and government users, and a lack of clarity on if and when consumer incentives will be reinstated by governments.

Reinstating the iZEV program will not close the gap between consumer demand and the mandated targets. Incentivizing 182,355 ZEV sales required to reach the mandated target would cost the federal government over \$900 million in 2026 alone (assuming iZEV is reinstated at \$5,000). In the meantime, the government’s public comments that a renewed consumer incentive is being considered have further weakened sales as consumers hold off purchasing vehicles. If funding is indeed available for EV programs, the priority should be to expand electric vehicle charging infrastructure, including program funding for workplace and home charging stations, which will support EV purchasing decisions and reduce range anxiety.

**Recommendation 2: Re-establish trade certainty for Canada’s automotive manufacturers.**

U.S. 232 tariffs on imported automobiles, steel and aluminum and Canada’s retaliatory measures are having a significant negative impact on the North American auto industry, including domestic manufacturers, the supply chain and the over half a million jobs (direct & indirect) the industry provides to Canadians. We strongly encourage accelerated efforts to re-establish certainty for trade and investment decisions by:

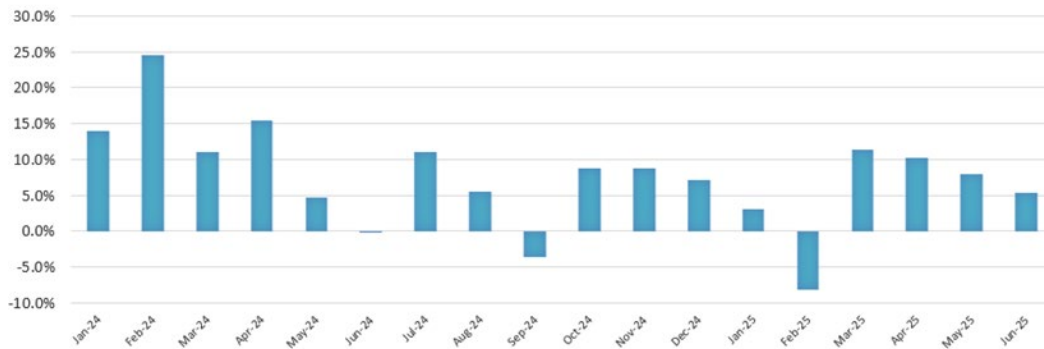
- i) **Achieving an agreement with the U.S. to remove tariffs, lift the retaliatory tariffs, and eliminate the production-based remission framework.**

The CVMA appreciates the government’s continued commitment to secure a path forward to removing tariffs on Canada-U.S. manufactured vehicles, steel and aluminum as quickly as possible. There is growing urgency to confirm a solution quickly to mitigate further market impacts.

<sup>1</sup> IHS Data, 2025.

As of May, Canadian exports of passenger cars and light trucks were down 14.1% year over year.<sup>2</sup> New vehicle purchase price increased 4.1% in June from 3.2% in May<sup>3</sup>. Total motor vehicle manufacturing sales declined 2.8% to \$69.6 billion in April, the largest month-over-month decrease since October 2023 and the lowest level since January 2022. Motor vehicle sales fell 8.3% to \$4.4 billion in April, marking the third consecutive monthly decline and the largest monthly decrease in dollar terms since December 2023. The sales market has continued to lose momentum in May and June.

**DAC Estimated Light Vehicle Sales % Change  
2024 to Present**



Source: DesRosiers Automotive Consultants Inc., GAC and CVMA

Prices for new passenger vehicles rose at a faster pace in June (+5.2%) than in May (+4.9%)<sup>4</sup>. Tariff impacts are expected to increase the longer they remain in place.

In exchange for reducing or eliminating tariffs, Canada should seek perfect alignment with the U.S. on the approach to Chinese EVs. This could include an agreement to keep Canada’s tariffs on Chinese EVs at the same level as the U.S., matching U.S. actions on Chinese connected vehicle hardware and software, and taking additional measures to protect against Chinese investment in the critical mineral and EV supply chain.

**ii) Accelerating review of the Canada-United States-Mexico (CUSMA) agreement.**

Review of the CUSMA needs to be launched as early as possible to confirm North American trade rules that provide certainty for automotive investment and the highly integrated supply chain.

Canada’s domestic automotive manufacturing industry has evolved and is competitive as part of the highly integrated North American market. Canada, the United States, and Mexico build vehicles together and a continued continental trade and aligned regulatory approach remains critical. The automotive sector is a long-lead industry; product and investment planning begin years in advance of the start of production. Through this period, extensive analyses are conducted to ensure success and limit risk. Any level of uncertainty adds risk to investment choices. The CUSMA has provided a level of trade security across the region and maintaining this certainty is critical to Canadian industry and that of the region. The U.S., in particular, has benefitted from the agreement evidenced by its’ increased share of NA production from 65% in 2018 to 69% in 2022.

<sup>2</sup> Trade Data Online, Government of Canada

<sup>3</sup> Monthly Consumer Price Index, Statistics Canada, July 15, 2025

<sup>4</sup> “The Daily” Consumer Price Index, June 2025, Statistics Canada.

### iii) **Maintain US alignment on China**

Canada's 100% tariff on Chinese EVs must be maintained, however Canada should remove mild hybrids from the 100% surtax. Currently Canada's surtax is broader than the US action and includes mild hybrids (FHEVs), which is an accepted technology that has been offered in the marketplace for the past 20 years to help improve fuel efficiency and lower CO2 emissions from gasoline internal combustion engine vehicles. Mild hybrid vehicles can provide Canadians with an additional option to reduce CO2 emissions and therefore Canada should remove mild hybrids from its program to impose 100% surtax on Chinese EVs.

Canada's actions to impose surtaxes on Chinese electric vehicles should be accompanied by a ban on certain Chinese connected vehicle software, aligned with the U.S., to protect Canadian drivers from foreign actors manipulating these technologies to access sensitive or personal information. Strengthened trade policy and investment authorities are also needed for responsive anti-subsidy investigations and to examine and address gaps requiring new authorities to address national security issues.

We encourage continued direct engagement with the CVMA and our member companies regarding each of these endeavors to ensure the government has the information needed to support viable proposals.

### **Recommendation 3: Augment Canada's competitiveness for automotive investment to maintain manufacturing and research footprint.**

Proactive policies to enhance Canada's tax and regulatory competitiveness are needed to both secure existing automotive manufacturing and research operations and to remain attractive for future investment.

Under the "*One Big Beautiful Bill*", the U.S. administration is making permanent cuts to corporate tax rates, providing special depreciation allowances for production properties, increasing the advanced manufacturing investment credit, and undertaking a wide-ranging deregulation exercise with implications for Canada's relative automotive industry competitiveness.

Rather than reacting to U.S. policies, the CVMA recommends the federal government develop a vital advanced manufacturing framework to keep Canada competitive over the longer term.

This could include a clear and consistent commitment to:

- Regulatory alignment with the U.S. in the automotive industry;
- Continued removal of interprovincial trade barriers and regulatory divergences that create significant compliance costs for automotive companies in Canada;
- Recapitalizing the Strategic Innovation Fund (SIF), and establishing clear guidelines for how SIF interacts with the Clean Technology Manufacturing Investment Tax Credit (ITC);
- Extending enhanced Capital Cost Allowance (CCA) measures including the accelerated investment incentive (All) and full expensing measures for manufacturing and processing machinery and equipment included in Class 53 (or Class 43 for property acquired after 2025) that are currently scheduled to be phased out and not available for property that became available for use after 2027; and,
- Introduction of a large-scale vehicle scrappage program would entice consumers to turn in older vehicles for new, safer, more fuel-efficient or zero-emission vehicles, achieving incremental GHG reductions.

Supply chain resilience and certainty to demonstrate Canada as a secure and reliable trade partner requires continued attention. Threat of disruptions at supply chain corridors including marine and land ports of entry and rail networks results in increased costs for companies to anticipate disruptions, recalibrate complex logistics and divert shipment routing. Re-routing to mitigate disruption can become permanent, further impacting domestic trade corridor competitiveness. Clear, efficient and predictable

customs processes are required to support temporary vehicle imports for testing that support engineering program investments in Canada. Updates to the CBSA Assessment and Revenue Management (CARM) system are needed to support trusted trade, including automotive trade value and volumes.