



FORMAL RESPONSE TO THE REGULATIONS AMENDING THE PASSENGER AUTOMOBILE AND LIGHT TRUCK GREENHOUSE GAS EMISSION REGULATIONS

Canadian Automobile Dealers Association

MARCH 16, 2023

CADA

The Canadian Automobile Dealers Association (CADA) is the national association representing new car and truck dealers in Canada. CADA is a federation of provincial and regional dealer associations.

There are over 3,200 franchised automobile and truck dealerships that sell new cars and trucks in Canada. These dealers collectively employ over 160,000 people across the country and represent a key sector of Canada's economy. Through Canadian dealers, CADA is represented in nearly every community in Canada.

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CADA comments on the Canada Gazette Part I publication: Regulations Amending the Passenger Automobile and Light Truck Greenhouse Gas Emission Regulations

Executive Summary

This document is the Canadian Automobile Dealers Association's (CADA) formal response to the Federal Government's newly announced electric vehicle sales mandate, known as: Regulations Amending the Passenger Automobile and Light Truck Greenhouse Gas Emission Regulations.

CADA is the national association representing new car and truck dealers in Canada. CADA is a federation of provincial and regional dealer associations. There are over 3,200 franchised automobile and truck dealerships that sell new cars and trucks in Canada. These dealers collectively employ over 160,000 people across the country and represent a key sector of Canada's economy. This submission represents the input of the ten provincial dealer association members that make up CADA.

Automobiles are not only central to the functioning of modern Canadian business, they are the central transportation model for Canadian families and individuals. Simply put, without vehicles that are high functioning and well-maintained, Canadian society as we know it would collapse. It is not a coincidence that governments around the world, including Canada and provincial jurisdictions, declared automobile sales and service as essential during the pandemic crisis. In lay terms, without vehicles, doctors and nurses cannot reach hospitals, patients cannot be transported, workers cannot arrive at power plants and electrical generating stations, and even the power grid and other essential infrastructure cannot be maintained. CADA makes this point only to highlight how profound an impact modern vehicles have on our society. The transition away from highly reliable and efficient internal combustion engines, to electric vehicles, is a monumental societal challenge. Particularly so for a country such as Canada, with extreme cold weather and the second largest land mass in the world.

Governments at all levels must approach this transition with the greatest of care and the greatest of flexibility. The stakes and risks of mistakes are very high. Approaches that are miscalculated will not only have massive economic costs, but communities could be paralyzed and literally lives at risk. The transition to electric vehicles (EVs) is not a car manufacturer issue, a car dealer issue, or a customer issue. It is a once in a generation transition issue for all of society.

With this context, it is important to highlight that CADA and our dealers are all-in on the transition to zero emission vehicles. Our manufacturer partners have made clear that this transition will happen for 2035. This is clear not just by statements and plans, but by real action and product development and launch. The concern for dealers and consumers is that this proposed federal mandate does not adequately address the necessary structural preconditions for success. Canadians need accessible charging infrastructure and competitive purchasing incentives, or Canadians will face massive limits to consumer choice, and unreasonable increases to vehicle costs. Worse, a failure to make the transition to EVs smooth for consumers will lead to slower consumer adoption, older vehicles staying on the road longer and a rejection of the overall path to an EV marketplace.

This document will also present a detailed summary of key public policy actions required, including:

- Enhanced EV Consumer Purchase Incentives
- Building an Accessible Public Charging Infrastructure
- Public Awareness Campaign About the Benefits of EVs
- Fleets: Federal, Provincial and Municipal Fleets Should Buy More EVs
- Federal Vehicle Scrappage Program
- Building Codes
- Existing Building Retrofits
- Support for Dealer Charging Installation

Pillars of Success

Overall, the federal regulatory plan presented lacks sufficient focus on accessible charging infrastructure and competitive purchase incentives. No other industry has invested as much the auto industry in the transformation to zero emissions. Dealers across Canada are investing hundreds of millions in charging infrastructure and technology on top of the billions spent by Canadian and worldwide vehicle manufacturers. The Federal Government needs to work with industry and consumer groups to design and implement a plan that takes into account the vastly different economic and geographical realities across Canada.

To be successful, the Federal Government must hit pause and ensure that, at a minimum, the following elements are central to its regulatory approach:

Pre-conditions – EV sales mandates need to be tied to the corresponding development of the required market pre-conditions (charging infrastructure, grid readiness, consumer incentives).

Collaboration – Industry and government need to work together to achieve emissions reductions targets and keep Canada competitive.

Federal Leadership – The Federal Government needs to take on an active coordination role with the Provincial and local governments regarding the required market pre-conditions.

Supports – More investments, transparency, and accountability on consumer incentives, infrastructure, grid readiness, and education required to achieve sales targets.

Federal Mandate Approach

When addressing the EV sales mandate, the Federal Government consistently highlights that the transportation sector accounts for 25% of domestic greenhouse gas emissions in Canada. This misframes the problem and the potential positive impact of EV mandates on Canada's overall greenhouse gas (GHG) emissions. For clarity and transparency, this proposed EV mandates and regulatory package only has the potential to impact 10.7 percent of Canada's GHGs or .06% of GHG emissions on a given year. While these reductions are significant, the government must accurately balance the progress on GHG reductions with societal impact.

CADA agrees with the statement that "Decreasing emissions in all sectors, including transportation, is necessary to tackle climate change and reach the Government's emission reduction target of 40 to 45% below 2005 levels by 2030 and net zero by 2050." The problem is that this proposed approach uses extreme sales mandates and penalties on a sector that has already demonstrated a complete commitment and pathway to achieving the Federal Government's long term emission reduction targets. A sector representing only 10.7 percent of GHG emissions, and making the most progress on technology and investment, is being regulated in the most extreme manner. This, while the bulk of emissions and transportation emissions remain untouched.

Supply Chain Realities

Significantly, the regulatory approach presented by the Federal Government does not take into account the current global supply chain issues, and microchip shortages cause by the pandemic shut down. These supply chain issues are severely impacting vehicle supply across the world and Canada is no exception. This situation has been exacerbated by the ongoing conflict in Ukraine.

EVs' supply will continue to be substantially constrained in the coming years as all manufacturers ramp up their engineering capacities, new suppliers, new production facilities and different supply chains. The regulatory approach of Canada, no matter how well intentioned, cannot change these realities. As a result, this regulatory approach will lead to massive new vehicle shortages in Canada. This will be accompanied by massively increased cost of vehicles and consumer revolt against EV transitions. None of these outcomes is good for public policy or Canadians. Government must build in flexibility, so that progress can be achieved cooperatively with the auto sector and consumers.

Cost Estimate Errors

CADA is clear that the availability of a robust, effective and efficient charging infrastructure is critical for the successful transition to EVs. The federal analysis presented in the regulatory consultation is deeply and fundamentally flawed. This is highlighted by the almost throwaway line that "however, installation costs have not been accounted for in this analysis and thus may be underestimated."

The failure to account for the cost of installation of chargers is a massive problem. Real world experience from our dealers indicates that even highly motivated consumers, looking to make the transition to EVs, balk at the cost of transitions when they reach into the thousands of dollars.

Charging Installation Concerns

A second deep flaw in the federal analysis is an inadequate understanding of the barriers to charging infrastructure in multi-unit dwellings. Again, real world dealership experience is that residents in urban areas cannot get permission or cannot get practical installment of dedicated chargers where they live or work.

Currently, as the National Academy of Sciences points out, approximately 80% of all EV charging is done at consumer homes. Mandating EV sales without addressing the access to charging at home will lead to failure. This must be addressed.

When addressing charging infrastructure, the federal regulatory analysis does not estimate installation costs for at-home chargers. This is a major flaw and the sensitivity analysis provided grossly underestimated the potential cost swings in at-home installations.

Grid Readiness and Risk

The federal analysis completely underestimated the challenge of electricity grid readiness. Across Canada and North America many grid operators are already struggling to keep up with demand in certain areas and at certain times. One glaring example from 2022

was when the California power authorities asked residents to avoid charging electric cars in the evening during a heat wave in September. This request was made to avoid overloading the electricity grid. Imagine the hardship and risks in the Canadian context of a winter cold snap, leaving residents and businesses unable to charge their vehicles. Again, it is worth underlining that the threat posed by electricity outages during extreme cold is loss of life. The risk of being unable to charge a vehicle during cold Canadian extreme winters is not a matter of convenience but of life and death. Utility officials in other areas have warned at times of possible rolling blackouts to prevent system collapses as a result of EV demands at current levels. Coordinating and aligning the expansion of the EV market in Canada with major grid investments is critical.

Electricity Canada is the national association representing Canadian generation, transmission, and distribution of electrical energy to industrial, commercial, and residential customers. They have made it clear that electricity will power Canada's decarbonization effort and that electrification will require at least a doubling of today's electricity generation, transmission and distribution systems. The electricity industry in Canada has also made it clear that every province will experience significant challenges in doubling their systems with non- or low-emitting generation. CADA is aligned with Electricity Canada that the successful transition to zero emission vehicles will, in part, depend on a sufficient supply of clean, affordable electricity. This will require supporting electricity infrastructure through funding, regulatory clarity, and a clear path to build as the only way to meet the demand that EVs will require. Alignment with the progress and investments made to support electricity generators, transmitters and distributors is critical to supporting the transition to EVs. Any EV sales mandates need to be tied to success on improved charging infrastructure and grid readiness. Mandates need to be tied to real world progress on electricity grids at all levels, not on theoretical models that may underestimate the time and delays associated with these major infrastructure lifts.

Local Power Distribution Highest Risk Concern

Local power distribution is a key area of concern. Charging an EV can require a major boost to the electricity-transmitting capacity of the wires and transformers serving an EV-owning household. Analysis by Boston Consulting Group forecasts increases in the range of 70% to 130%. The consulting firm projects that utility companies may need to invest between \$1,700 and \$5,800 in grid improvements for each light-duty electric vehicle sold through 2030. Charging commercial vehicles poses another challenge. Such vehicles can use substantially more electricity than a passenger vehicle. Local grids will also have to supply public charging stations. Their number and power need has not been accounted for in this regulatory proposal. Similarly, transmission-network upgrades for

local distribution grids will face supply chain issues and backlogs in equipment and even shortages of skilled workers to install upgrades.

Impact on Low Income Canadians

The regulatory analysis is correct that low-income households are also more likely to live in rental units, not suitable for at-home charging equipment. This means that low-income households will more likely have to rely on publicly available charging stations that may charge a premium on the cost of electricity. Of course, this also means a premium on household time and inconvenience.

A federal mandate approach ensures that low-income households will be disproportionately and negatively affected by the proposed amendments. This will be compounded as vehicle availability declines and vehicle prices increase dramatically.

Impact on Rural Canadians

The regulatory analysis also makes it clear that Canadians living in rural and northern communities will face more difficulties with the transition to EVs due to prolonged periods of cold temperatures that may affect the range of battery-powered electric vehicles. This, again, is not a simple economic issue but a survival issue. As higher electricity costs increase, rural Canadians will be hurt the most by a mandate approach.

Compounding Negative Impact on Low Income and Rural Canadians

The federal analysis makes clear that there will be a compounding negative effect on lower-income rural Canadians. There is no plan presented to overcome this enormous social and economic problem.

The transition to electrification needs to work for all Canadians, including those in rural and remote areas and lower-income households. Regulating Canadians to buy EVs they can't afford or charge is a made-in-Canada policy failure. The vague promise to "work on policies" to address this is unacceptable. No mandate should proceed without detailed plans and commitments to address these equity issues.

Provincial Alignment

The transition to 100 percent EVs sales will be a massive societal transition that will require government leadership and programs, as well as a shift in societal barriers. It will also require federal/provincial cooperation to avoid competing and potentially counterproductive approaches. As of March 2023, there is no alignment with the provincial governments. Many provinces, notably Ontario, Alberta and Saskatchewan strongly oppose the EV sales mandates. Some provinces offer EV consumer sales incentives, others do not. Alignment should be achieved before mandating an approach that has such significant societal impacts at the national, provincial, and local level.

North American Alignment

The success of the Canadian automotive sector as a key driver of the Canadian economy has been largely based on the long-standing, highly integrated basis of the North American automotive industry. A harmonized regulatory approach has been key. A new Canadian regulatory approach of sales mandates, that are not aligned with the U.S. approach, will have negative investment consequences and increased costs for dealers and consumers. Not only will misalignment threaten economic interdependence and success, but it will slow reductions in vehicle GHG emissions.

The automotive industry has achieved a 29% GHG emissions reduction in new vehicles since 2005 due to investments in new technologies, including EVs and conventional powertrains, to meet increasingly stringent vehicle GHG emissions standards. Canada must continue to align its GHG emissions standards with the U.S., given the highly integrated nature of the industry. This gives Canadians access to the broadest range of vehicles and advanced technologies - at the lowest price.

European Approach Alignment

The regulatory analysis cites the fact that the European Parliament supports a ban on the sale of new gas and diesel cars by 2035. The regulatory analysis claims that this is equivalent to Canada's EV sales mandate, which would require all new 2035 model year gasoline and diesel cars to be zero emissions. However, these are not equivalent approaches. The Canadian approach is not prescribing a GHG reduction but prescribing the technology used to achieve these targets.

Since the publication of the Canadian regulatory analysis, Europe has hit pause on alignment for 2035. In fact, the European Parliament has delayed the final vote to ban combustion vehicles by 2035 after serious concerns by member states, including Germany. The issue of e-fuels in the European debate highlights the complexity of these issues. Flexibilities must be built in to the Canadian approach.

Dealer Costs

The Regulatory Impact Analysis Statement does not adequately address the dealer costs associated with a vehicle sales mandate. Cost associated with stagnant or negative sales are not accounted for.

A strong dealer network will be essential in the selling and servicing of EVs. Leveraging the existing Canadian dealer network will be vital for the speedy adoption of EVs by Canadians. As with any new and unfamiliar technology, Canadian consumers will need to be educated on owning and operating EVs. Customers will also need the comfort of knowing that they have a reliable Canada-wide network of qualified service technicians

to service their new EV in one of the world's harshest winter climates. This also includes performing valuable safety functions, such as safety recalls.

In order to build consumer confidence, Canadians will also need a location where they can experience the vehicle in person, test drive the new technology, obtain affordable financing and execute trades. Dealers will be critical to advancing the process of transitioning millions of Canadian families from internal combustion engine (ICE) vehicles to EVs.

Franchised Dealers have been and are currently investing hundreds of millions of dollars on installing electric chargers, purchasing special equipment, parts and tools, and investing in training sales and service personnel to prepare for selling and servicing the over 200 new EV models that automakers will bring to market in the next couple of years. The federal analysis does not adequately address the cost of retraining technicians on the pace outlined in the mandates.

Flexibility of Targets

As stated, supply chain issues create extensive uncertainty surrounding the auto industry's ability to deliver EVs on a worldwide basis. This is compounded by the uncertainty surrounding the government's ability to create the preconditions of a successful transition to EV marketplace in Canada. Therefore, the regulations should create the flexibility to adjust annual targets that become unachievable. This could include problems with electricity generation, distribution and installation of the charging network. It could also include supply chain issues, shortages of critical minerals needed for batteries, or industrial crisis.

Consumer Behavior

Consumer behavior is not motivated by EV sales mandates. In the 12 U.S. states that have had EV mandates in place, the average EV registrations in those states in 2021 was 6%. That is only 3% higher than the average in states without mandates. It is clear that EV mandates alone are not a silver bullet to boosting sales. In fact, the availability of EVs is correlated to consumer incentives and charging infrastructure, not regulations. A mandated supply will fail without organically driven consumer demand. Auto dealers strongly support the transition to electric vehicles and are investing hundreds of millions in electrification. In leading countries like Norway, where there are powerful consumer incentives and accessible charging infrastructure in place, demand is high and there is plentiful supply.

The federal goal of having all new light-duty vehicles sold be zero emission by 2035 is laudable and ambitious at the same time. On the surface, such bold targets paired with

interim mandates sound like a simple policy tool that will help lead to guaranteed consumer adoption. Consumer adoption and potential consumer resistance will lead to some Canadians refusing to give up their ICE vehicles on a government timetable. Consumers holding on to older, higher polluting vehicles has always been an environmental challenge. In the case of sales mandates, Canada needs to be careful that we do not get consumer resistance leading to slower overall fleet turnover and thus a worse environmental outcome. Meeting sales mandates for EVs, but not improving environmental performance is a real risk.

Summary of Key Public Policy Actions Required

The following policy changes will be required to ensure that 100% of new vehicle registrations are ZEV by 2035:

Enhance EV Consumer Purchase Incentives

Government must increase EV incentives and expand them to the wider range of EVs coming to the Canadian market. The higher cost of the initial purchase of EVs makes it more difficult to adopt this clean technology. The current federal Incentives for Zero-Emission Vehicles (iZEV) Program and tax write-offs for businesses are critical in making this transition possible and affordable. While these programs have an impact on the current marketplace, bolder, higher and more consistent incentive plans must be implemented. The current patchwork of federal and provincial incentives will not be enough to impact this societal transformation. EV cost will come down overtime, but government incentives are the most powerful tool to overcome cost barriers at point of purchase. The American Biden Administration's incentives of up to \$12,500 USD are more in the range of incentives that will drive transition. In Canadian purchasing terms, this would need to be in the range of \$15,000 CND.

Building an Accessible Public Charging Infrastructure

Massive and significant public charging infrastructure improvements are needed. This includes investing in convenient, accessible and fast vehicle charging networks across Canada. Dealership staff consistently report that consumers are concerned with the lack of widespread availability of public charging points, as well as non-proprietary charging infrastructure. Canada's network of public charging needs vast improvements and expansion to serve a 100 percent EV sales market.

As an example, in 2019, Canada had 290 public charging outlets per million residents, spread out across the world's second largest country. By contrast, Norway had over 1700 charging outlets per million residents in 2018. Consumer confidence in a robust

and capable public charging infrastructure will drive EV sales, whereas a lack of confidence will kill sales.

Public Awareness Campaign About the Benefits of EVs

Federal and provincial governments need to seriously partner with automakers, dealers, utilities and non-profits to educate Canadians about the benefits of EVs. The creation of a robust national education campaign will ensure the rapid and ongoing education of Canadian consumers and reassure Canadians that the transition is possible and progress is being made. Highlighting the success of the transition to EVs will be more influential than setting interim targets that may be more problematic than helpful in the long run.

Full battery electric vehicles are cheaper to fuel and operate, saving the average EV driver hundreds of dollars per year on gas and maintenance. Replacing gasoline with electricity can save the average driver as much as \$1,500 per year on fuel alone. Educating consumers and creating that awareness at point of purchase will be critical.

Fleets: Federal, Provincial and Municipal Fleets Should Buy More EVs

Governments at all levels buy vehicles for official purposes, and these government fleets represent a potential source of EV sales. Governments can lead by example by increasing the number of all types of electric vehicles in their fleets. Studies from American jurisdictions with the most proactive sales mandates for EVs demonstrate that government fleet sales do not always lead the way as they should.

Federal Vehicle Scrappage Program

To maximize the potential of EV adoption, CADA would encourage the Federal Government to implement a vehicle scrappage program. Such a program could be targeted at EV transition and ensure that Canada puts cleaner and safer vehicles on the road, and overcomes some of the financial obstacles of economically disadvantaged Canadians moving to EVs. A scrappage program's incentive is given directly to those buying a vehicle, not vehicle dealers or manufacturers.

Building Codes

Canadian dealers and their sales staff frequently report that the hesitancy of EV adoption in an urban setting is impacted by access to charging at residences. Many urban neighborhoods have only on-street parking while multi-unit residences cannot accommodate charging stations for a full societal transition to EVs. Building codes requiring charging stations exist in British Columbia, Ontario and Quebec to some extent. These however, are a patchwork solution that requires federal leadership for a national harmonized approach to accommodate interprovincial EV-ready building codes in all

provinces. EV sales mandates in a context where Canadians cannot charge their vehicle at home do not make any sense and will not work.

Existing Building Retrofits

Access to at-home electric vehicle charging is critical to enabling successful adoption of EVs. Only a very small number of local governments are considering requirements that residential parking in new buildings be 100 percent EV-ready. Therefore, there needs to be a strong policy focus on supporting retrofits to implement EV charging. This includes retrofit wiring and metering. Federal support needs to be directed at both incremental EV charging installations and 100-percent EV-ready retrofits.

To this point, in Canada, most multifamily buildings have supported an incremental approach to EV charging by installing one or two EV chargers. As we move to a mandated approach, pressures on these shared stations will mount. For an individual driver or family, implementing EV charging infrastructure as a series of one-offs is very expensive. For example, the average cost in BC for a single charger retrofit is approximately \$7,000, but in some areas in Canada it can reach beyond \$15,000 for a single charger retrofit. The approach of 100-percent EV-ready retrofits have lower life cycle costs and greater convenience. But this requires massive upfront costs, feasibility assessments and extensive planning timeframes. The proposed federal mandate plan must take these supports into account.

Support for Dealer Charging Installation

Our member dealers are centrally located in communities of all sizes across Canada. Our dealerships sell vehicles close to where Canadians use them. As a result, dealerships are in a unique position to offer public charging options to the communities they serve. Dealers are making massive investments in the transition to an EV world and this includes charging infrastructure. But more can be done with federal support and leadership to ensure that the extensive network of dealership lands and facilities are leveraged for the transition. The Federal Government must develop a specialized program to support dealership charging facilities.

Conclusion

Clearly, for Canada to achieve the target for all new light-duty cars and passenger trucks sales to be zero-emission by 2035, more ambitious government action is required to enhance consumer incentives, invest in charging infrastructure, build consumer education and create an electric vehicle battery supply chain. Simply setting mandates will not be enough to hit the ambitious collective goals.

Canada's franchised car dealers look forward to playing a leading role in bringing in the next exciting chapter in Canada's proud automotive history. Dealers will do what they have done for the last century and that is selling and servicing automobiles that provide Canadians with reliable and affordable private transportation. Canada is a vast northern country and our success economically and as a society depends on a working automotive transportation network.