



Government of Canada Gouvernement du Canada

Ottawa, Canada
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December 10, 2021

The Honorable Charles Schumer
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable Ron Wyden
Chair
Finance Committee
United States Senate
Washington, DC 20510

The Honorable Mike Crapo
Ranking Member
Finance Committee
United States Senate
Washington, DC 20510

The Honorable Bob Menendez
Chair
Foreign Relations Committee
United States Senate
Washington, DC 20510

The Honorable James Risch
Ranking Member
Foreign Relations Committee
United States Senate
Washington, DC 20510

The Honorable Joe Manchin
Chair
Energy & Natural Resources Committee
United States Senate
Washington, DC 20510

The Honorable John Barrasso
Ranking Member
Energy & Natural Resources Committee
United States Senate
Washington, DC 20510

Dear Senators:

The *Build Back Better Act* soon to be under consideration in the United States Senate contains provisions that are discriminatory toward Canada, Canadian workers and our auto industry. We are writing to register our objection in the strongest terms. Canada very much supports global efforts for a more sustainable future and shares your interest in supporting the transition to electric vehicles. Canada is committed to cut its greenhouse gas emissions by 40-45 percent below 2005 levels by 2030 and has a concrete plan to deliver, the centrepiece of which is our robust price on pollution that is globally recognized as one of the most progressive and effective measures in the fight against climate change. Additionally, we have committed to a mandatory target of having 100 per cent of new light duty vehicles be zero-emission vehicles by 2035. We

Canada 

have also introduced trade-compliant consumer incentives for the purchase of zero-emission vehicles, which currently include those produced in the United States.

Against this backdrop, we are deeply concerned that certain provisions of the electric vehicle tax credits as proposed in the *Build Back Better Act* violate the United States' obligations under the United States-Mexico-Canada Agreement (USMCA). The proposal is equivalent to a 34 per cent tariff on Canadian-assembled electric vehicles. The proposal is a significant threat to the Canadian automotive industry and is a *de facto* abrogation of the USMCA.

We have been building cars together for over 50 years. Given the deep integration of our respective automotive industries, the proposal would have important repercussions in the U.S., affecting American production and jobs. Canada is the number one market for U.S. automotive exports, buying about 10 per cent of U.S. production. Canadian-assembled vehicles also contain approximately 50 per cent U.S. content and Canada imports over \$22 billion worth of automotive parts from the U.S. annually. These parts come from suppliers in numerous states, including Michigan, Ohio, West Virginia, Virginia, Indiana, Kentucky, Illinois and New York, among others.

This issue is at the top of Canada's agenda with the United States. With this in mind, we urge you to ensure an outcome in the *Build Back Better Act* that does not discriminate against Canada, so we can strengthen our mutually beneficial automotive trade, and work together, as partners, on many shared priorities.

We want to be clear that if there is no satisfactory resolution to this matter, Canada will defend its national interests, as we did when we were faced with unjustified tariffs on Canadian steel and aluminum. In that regard, Canada will have no choice but to forcefully respond by launching a dispute settlement process under the USMCA and applying tariffs on American exports in a manner that will impact American workers in the auto sector and several other sectors of the U.S. economy.

Beyond possible retaliatory actions, if the U.S. proceeds with the tax credit provisions as drafted, we would see this as a significant change in the balance of concessions agreed to in the USMCA. As such, we would consider the possible suspension of USMCA concessions of importance to the U.S. in return. Those concessions could include suspending USMCA dairy tariff-rate quotas and delaying the implementation of USMCA copyright changes.

In the coming days, we are preparing to publish a list of U.S. products that may face Canadian tariffs if there is no satisfactory resolution of this issue. While including the auto sector, our proposed retaliatory actions will extend across a number of sectors. At the same time, we intend to make clear which U.S. businesses and workers will be impacted.

To be clear, we do not wish to go down a path of confrontation. That has not been the history of the relationship between our two countries – nor should it be the future. There is an opportunity to work together to resolve this issue by ensuring Canadian-assembled vehicles and batteries are eligible for the same credit as U.S.-assembled vehicles and batteries. We are also prepared to work closely with you to support the transition to EVs and leverage the deep integration of

Canada-U.S. automotive trade. Preserving Canada's participation in the joint production of electric vehicles is crucial to protecting our integrated industries, sustaining good, high-paying jobs for workers on both sides of our border, achieving our shared environmental objectives, and ensuring a strong bilateral relationship between our two countries.

Sincerely,



The Honourable Chrystia Freeland, P.C., M.P.
Deputy Prime Minister and Minister of Finance



The Honourable Mary Ng, P.C., M.P.
Minister of International Trade, Export Promotion,
Small Business and Economic Development