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CANADA

CANADA-UNITED STATES RELATIONSHIP AND ITS IMPACTS ON THE ELECTRIC VEHICLE, AND SOFTWOOD LUMBER AND OTHER SECTORS

Report of the Standing Committee on International Trade

Hon. Judy A. Sgro, Chair

**OCTOBER 2022
44th PARLIAMENT, 1st SESSION**

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NOTICE TO READER

Reports from committees presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON INTERNATIONAL TRADE

has the honour to present its

SECOND REPORT

Pursuant to its mandate under Standing Order 108(2), the committee has studied the Canada–United States relationship and its impacts on the electric vehicle, softwood lumber and other sectors and has agreed to report the following:

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LIST OF RECOMMENDATIONS

As a result of their deliberations committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. Recommendations related to this study are listed below.

Recommendation 1

That the Government of Canada develop additional policies and implement further measures aimed at electrifying transportation in Canada. When appropriate, these efforts should include collaboration with governments in Canada, the United States and Mexico, as well as other relevant stakeholders. Moreover, with the goal of standardization, the Government should continue working with other governments in Canada to enhance the country's network of electric vehicle charging infrastructure. 14

Recommendation 2

That the Government of Canada undertake consultations about the production of electric vehicles, batteries and automotive parts, as well as the development of related supply chains. In particular, the Government should consult other governments in Canada, consumers, and representatives of organized labour groups and business associations in the following sectors: electric vehicles, batteries, automotive parts and critical minerals. Prior to undertaking consultations, the Government should consider issuing a white paper on the topic of the electrification of transportation in Canada, with a particular focus on goods and services produced and exported by Canada's electric vehicle and other related sectors..... 15

Recommendation 3

That the Government of Canada consider appointing an advisor on the electrification of transportation in Canada. This advisor should work with all relevant stakeholders affected by pertinent federal policies and measures, including those involved in the research, development, innovation and production of electric batteries and automotive parts, as well as electric vehicles, buses, trucks, bikes and other methods of land-based transportation. 15

Recommendation 4

That the Government of Canada ensure the existence of policies and measures that will lead to a high level of production of electric vehicles, batteries and automotive parts, as well as the mining of critical minerals. Moreover, the Government should ensure the existence of reliable supply chains concerning these products. Finally, the Government should take the following two actions expeditiously: implement the forthcoming federal critical minerals strategy; and add phosphate to Canada's list of critical minerals..... 15

Recommendation 5

That the Government of Canada—as required—continue with, and enhance, its advocacy efforts in the United States concerning any potential federal tax credits for U.S.-produced plug-in electric vehicles or other measures that could negatively affect Canadian firms and employees. This advocacy should occur alongside similar efforts by relevant stakeholders, including other governments in Canada, as well as Canadian firms and employees and their representatives. As well, if the United States or Mexico contemplates or implements actions that could disadvantage Canada's electric vehicle and related sectors, the Government should consider taking strong actions that would support Canada's electric vehicle and battery producers and employees..... 15

Recommendation 6

That the Government of Canada consider taking strong actions designed to align current federal incentives for the purchase of Canadian-produced electric vehicles with comparable incentives available in the United States. As well, the Government of Canada should cooperate with the Government of the United States to ensure that current and proposed federal incentives in the two countries for the production and purchase of electric vehicles are consistent with the requirements of the *Canada–United States–Mexico Agreement* and the World Trade Organization..... 16

Recommendation 7

That the Government of Canada, in its efforts to resolve the current softwood lumber trade dispute between Canada and the United States, prioritize outcomes that meet two objectives: ensure and enhance access by softwood lumber producers in Canada to the U.S. market; and return anti-dumping and countervailing duty amounts collected by the United States to the producers that have paid them. These efforts should be informed by input from other governments in Canada, as well as by firms, employees and their representatives..... 24

Recommendation 8

That the Government of Canada work with other governments in Canada with the goal of ensuring that firms in the domestic softwood lumber sector can access lands from which timber can be harvested..... 25

Recommendation 9

That the Government of Canada collaborate with other governments in Canada, as well as with firms, employees and their representatives, with the aim of diversifying both the softwood lumber products that are exported from Canada and the foreign markets to which they are exported. As part of its diversification efforts, the Government should rely on the efforts of the Trade Commissioner Service's network of trade representatives located throughout the world. Moreover, when negotiating new or updating existing trade agreements, the Government should consider the forestry sector to be a key sector in Canada..... 25

Recommendation 10

That the Government of Canada—on an ongoing basis—assess whether legislation proposed in countries that are trading partners, including for softwood lumber products, is consistent with those countries' trade obligations in relation to Canada..... 25

Recommendation 11

That the Government of Canada make substantial investments in existing and new infrastructure to support the efficient and cost-effective transportation of softwood lumber products from Canada to foreign markets. As well, the Government should implement measures to enhance the ability of firms to supply the global demand for softwood lumber products from Canada in a timely and competitive manner. 25



CANADA-UNITED STATES RELATIONSHIP AND ITS IMPACTS ON THE ELECTRIC VEHICLE, AND SOFTWOOD LUMBER AND OTHER SECTORS

CHAPTER ONE: INTRODUCTION

Canada's trade relationship with the United States (U.S.) is broad, deep and dynamic. Firms and employees in Canada and the United States, and the economies of both countries, benefit from this bilateral trade relationship, which supports millions of jobs and thousands of communities. Nevertheless, from time to time, certain sectors are affected—or potentially affected—by trade-related actions proposed or implemented in either country.

On 31 January 2022, the House of Commons Standing Committee on International Trade (the Committee) adopted a [motion](#) to study the Canada–U.S. relationship, and its impacts on the electric vehicle (EV), softwood lumber and other sectors in Canada.

Concerning the EV sector, both [Canada](#) and the [United States](#) have announced sales targets for zero-emission EVs, and production of these vehicles could affect bilateral trade and cross-border supply chains. On 19 December 2021, the U.S. House of Representatives [passed](#) the proposed [Build Back Better Act](#). Containing provisions for federal tax credits of up to US\$12,500 per vehicle for certain plug-in electric vehicles (PEVs) assembled in the United States and/or containing specified U.S. content, the U.S. Senate did not vote on the proposed legislation.

On 7 August and 12 August 2022, the U.S. Senate and the U.S. House of Representatives—respectively—passed the [Inflation Reduction Act of 2022](#) (IRA). U.S. President Joe Biden [signed](#) the IRA into law on 16 August 2022. An August 2022 [report](#) by the U.S. Congressional Research Service indicates that this law includes provisions that supersede those in the proposed Build Back Better Act in a number of areas, including EVs. The IRA contains provisions for federal tax credits of up to US\$7,500 per vehicle for certain zero-emission vehicles—including EVs—that are assembled in North America and/or that contain specified North American content.

Between 2 February and 9 February 2022, the Committee held three meetings during which some witnesses made comments about the impacts of the Canada–U.S. relationship on Canada's EV sector. Their comments were made before the IRA was enacted in the United States; for that reason, the focus for a number of witnesses was



the federal tax credits for PEVs contained in the proposed Build Back Better Act. In addition to commenting on EVs, some witnesses discussed other themes, including: automotive rules of origin; blockades at the Canada–U.S. border; border carbon adjustment mechanisms; the *Canada–United States–Mexico Agreement* (CUSMA); Canada’s access to the U.S. market, including for softwood lumber products and potatoes; a Canadian digital services tax; the continental defence industrial base; COVID-19 testing requirements for cross-border travellers; export permits for controlled goods; the former Canada–United States Automotive Products Agreement; government procurement; the possible shutdown of Enbridge’s Line 5 pipeline; trade remedies; and U.S. access to Canada’s market for supply-managed products.

Regarding softwood lumber, in its most recent [report](#) on the forestry sector in Canada, Natural Resources Canada notes that—in 2020—the sector contributed about \$25.2 billion to the country’s nominal gross domestic product (GDP), employed approximately 184,500 people and had exports valued at \$33.1 billion. The United States is Canada’s primary export market for softwood lumber products. However, since 1982, a number of bilateral softwood lumber trade disputes have occurred, largely due to differences between Canada and the United States in two areas: forested land ownership and management regimes; and pricing systems.

During these disputes, the United States has periodically applied anti-dumping duties (ADs) and countervailing duties (CVDs) on exports of certain softwood lumber products from Canada. In response, Canada has typically taken actions under the World Trade Organization’s (WTO’s) agreements, the *North American Free Trade Agreement* (NAFTA), as well as—more recently—CUSMA. In 2006, Canada and the United States signed the [Softwood Lumber Agreement](#) (SLA) to resolve one of those disputes, with an agreement reached concerning such matters as tariff elimination and the return of duties collected. The SLA expired in 2015, leading to the most recent softwood lumber trade dispute between the two countries.

Between 7 February and 28 March 2022, the Committee held three meetings during which some witnesses spoke about the impacts of the Canada–U.S. relationship on the softwood lumber sector in Canada, primarily with a focus on the current trade dispute and various supports for the sector. Their comments were made before the U.S. Department of Commerce’s 4 August 2022 announcement about the final results of its [third administrative review](#) of the AD and CVD orders regarding certain Canadian softwood lumber products, and the Government of Canada’s 29 August 2022 [announcement](#) highlighting Canada’s decision to challenge that review. As well, a number of witnesses discussed some themes unrelated to the sector, including: automotive rules of origin; blockades at the Canada–U.S. border; CUSMA; Canada’s

access to the U.S. market, including for steel products and potatoes; Canada's trade and investment activities in the Indo-Pacific region; Canadian and U.S. relations with Indigenous peoples in North America; Canadian deposits of critical minerals; cancellation of the Keystone XL pipeline's cross-border permit; climate change; COVID-19 testing and vaccination requirements for cross-border travellers; government procurement; NAFTA; North American supply chains; the production of EVs and their batteries; Russia's most recent invasion of Ukraine; the United States' proposed Build Back Better Act and its provisions for federal tax credits for certain PEVs; and U.S. access to Canada's market for supply-managed products.

The second and third chapters of this report summarize the witnesses' views about the EV and softwood lumber sectors in Canada, respectively. In general, they had two areas of focus: impacts of the Canada–U.S. relationship on the sector, and Government of Canada actions. These chapters also present the Committee's thoughts and recommendations concerning the two sectors. The report's final chapter contains the Committee's concluding thoughts about the Canada–U.S. trade relationship.

CHAPTER TWO: CANADA'S ELECTRIC VEHICLE SECTOR

Impacts of the Bilateral Relationship on the Sector

In discussing impacts of the Canada–U.S. relationship on Canada's EV sector, witnesses made comments to the Committee about electrifying transportation, including by producing EVs and their batteries, and advocating in relation to the U.S. federal tax credits for PEVs in the proposed Build Back Better Act.

Electrifying Transportation

According to the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#), as part of a commitment to requiring all new vehicles sold in Canada to have zero emissions by 2035, the Government of Canada provides incentives for the purchase of EVs, including those imported from the United States.¹ The [Minister](#) noted that these incentives positively affect U.S. manufacturing jobs.

[Canada's Building Trades Unions](#) characterized Canada's "target of 100% of new automotive sales being zero-emission by 2035" as compatible with the United States'

¹ Since May 2019, the Government of Canada's [Incentives for Zero-Emission Vehicles Program](#) has provided consumers with incentives of up to \$5,000 per eligible purchase or lease of a designated zero-emission vehicle.



climate goals. It argued that the two countries “have more alignment than misalignment” in their efforts to reduce the “world’s carbon footprint” and to transition to low-emission vehicles.

Appearing as an individual, Concordia University’s and McGill University’s [Karim Zaghib](#) observed that electrifying transportation has the potential “to create jobs and to revive” Canada’s automotive manufacturing sector, particularly in Ontario and Quebec.

[Electric Mobility Canada](#) highlighted that Stellantis N.V. and General Motors aim to produce only EVs by 2028 and 2035, respectively. It added that some other automotive companies have established targets for the proportion of motor vehicles produced by 2030 that will be EVs, particularly identifying the targets of 40% for Ford Motor Company, and of 50% for each of Nissan Motor Company and Volkswagen Group. Electric Mobility Canada also identified domestic firms that produce buses, school buses, trucks or snowmobiles that are electric, such as Nova Bus Inc., New Flyer Industries and Lion Electric Company, and stated that there is “great potential for job creation” in EV production.

[Global Automakers of Canada](#) emphasized that China, Europe and the United States are competing against each other in producing EVs, with Canada being “collateral damage.” It stressed that, as a result of this competition, the United States is trying to ensure that EVs and their parts “are built in [the United States] and sold to Americans.” Similarly, [Electric Mobility Canada](#) mentioned certain challenges associated with renewable energy and the electrification of transportation, and contended that Canada and the United States have fallen behind China in producing EVs.

[Toyota Motor Manufacturing Canada Inc.](#) noted that firms’ ability to “source or build [EV batteries] within North America will determine the future winners and losers in the automotive marketplace.” It predicted that the Canadian and U.S. automotive sectors will experience “unprecedented changes as internal combustion powertrains are gradually replaced by electric motors and batteries.”

Concerning EV batteries, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) underscored that Canada has 13 of 35 minerals that the United States has said are “critical” to its national and economic security. The Minister remarked that Canada is among the few countries in the Western Hemisphere “that [have] all of the critical minerals that are required to [produce] EV batteries,” such as nickel, lithium, cobalt and aluminum.

[Karim Zaghib](#) indicated that Canada has a number of the minerals needed to produce lithium-ion batteries, including copper, graphite, silicon, manganese, iron and

phosphate. Karim Zaghib asserted that Canada is “an attractive supplier of critical minerals for [EV battery] manufacturers” in Canada and the United States. As well, [Karim Zaghib](#) maintained that, in addition to critical minerals, Canada has access to the “human capital, intelligence and technology” needed to produce EVs and their batteries.

Advocating in Relation to the Proposed Federal Tax Credits for Plug-In Electric Vehicles

In describing Canada and the United States as “each other’s [primary] market” for motor vehicle exports, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) observed that implementation of the U.S. federal tax credits for PEVs contained in the proposed Build Back Better Act “would harm businesses and hundreds of thousands of jobs … on both sides of the [Canada–U.S.] border.” The [Minister](#) also highlighted that their implementation would “threaten the future of Canada’s automotive sector,” and would negatively affect the two countries’ “deeply integrated [automotive] supply chains.”

As well, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) pointed out that the proposed credits are inconsistent with trade obligations under CUSMA and the WTO, and suggested that their implementation would be a “barrier” to achieving bilateral climate change goals outlined in the Roadmap for a Renewed Canada–U.S. Partnership. Global Affairs Canada [officials](#) estimated that implementation of the proposed credits would affect Canada’s EV and other sectors, as well as “communities where jobs are supported by the automotive sector.”

The [Automotive Parts Manufacturers' Association](#) stated that implementation of the proposed credits would “hurt” both Canadian motor vehicle producers and their U.S. suppliers, while benefitting suppliers located in such countries as China, Malaysia and Vietnam.

[Unifor](#) commented that implementation of the proposed credits would represent a 22% subsidy for U.S.-produced EVs. It added that their implementation would both disincentivize investments in Canada’s EV sector and reduce the country’s access to the U.S. market, thereby affecting domestic efforts to increase investments in—and production of—EVs.

[Electric Mobility Canada](#) underlined that implementation of the proposed credits could negatively affect Canadian research and development, as well as domestic production of electric school buses, electric transit buses, off-road EVs and PEV charging infrastructure. It also stressed that their implementation could lead “tens of thousands of current and



future jobs” in Canada’s EV sector to be transferred to the United States. Furthermore, like [Unifor](#), [Electric Mobility Canada](#) speculated that implementation of the proposed credits could result in investments being made in the United States’ EV and EV battery sectors, rather than in those sectors in Canada.

With a focus on Canada’s aluminum sector, the [Aluminium Association of Canada](#) said that “a tax on electric vehicles or any similar measure [would not] affect jobs or production” in that sector.

Government of Canada Actions

Witnesses spoke to the Committee about collaboration regarding various aspects of the electrification of transportation, including EV production, charging infrastructure and batteries, and advocacy concerning the U.S. federal tax credits for PEVs contained in the proposed Build Back Better Act.

Collaborating on Electrifying Transportation

In commenting on Canada’s and the United States’ commitment to addressing climate change, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) mentioned that the two countries realize that the “future of our automotive sector and its workers is ... electric and ... sustainable.”

[Electric Mobility Canada](#) observed that the “future of mobility is clearly electric,” and encouraged the Government of Canada and the Canadian automotive sector to work with their U.S. counterparts to co-develop a plan for a “thriving” EV sector.

Concerning charging infrastructure for EVs, [Karim Zaghib](#) commented that Canada and the United States should standardize the “fast and ultra-fast charging network” for EVs, particularly to develop “universal payment systems.” As well, [Karim Zaghib](#) underscored the need to harmonize Canadian and U.S. incentives for purchasing an EV.

[Karim Zaghib](#) also mentioned that Canada and the United States could become “pioneers in lithium-ion batteries,” and stated that the Government of Canada should collaborate with provincial governments in providing up to 50% of the funding required to build plants to produce EVs and their batteries.

In discussing the future of Canadian automotive production “at all stages of the supply chain,” including critical minerals and EV batteries, [Unifor](#) claimed that a “stronger domestic supply chain” would provide Canada with “greater leverage when dealing with

isolationist trading partners like the [United States] now and in future.” [Canada's Building Trades Unions](#) suggested that, to “support [Canada’s] transition to net zero,” the Government of Canada should “develop a made-in-Canada [EV battery] supply chain, from mining to the manufacturing floor.”

With the goals of reducing dependence on Asian suppliers and supporting domestic sectors, [Karim Zaghib](#) remarked that Canada and the United States should “collaborate extensively [to ensure] a secure and stable supply chain, from mines, to electric vehicles to recycling.” The [Canadian Chamber of Commerce](#) maintained that certain countries, including China, “are not reliable and stable sources” of minerals and metals, and added that Canada “has a lot of these products in the ground” and needs to do “a much better job of getting them out of the ground … .”

To ensure that both Canada and the United States are able to produce “process control machines,” [Karim Zaghib](#) encouraged the Government of Canada to establish a “strategic committee” on critical minerals used in EV batteries, with such a committee having the mandate to develop “protocols” concerning “cell and battery production technologies.” In the context of the Canada–U.S. partnership in EVs and their batteries, Karim Zaghib identified lithium iron phosphate batteries as “[o]ne of the scientific and commercial success stories.” Accordingly, [Karim Zaghib](#) urged the Government to add phosphate to its list of critical minerals, and asserted that this natural resource should also “be considered critical for national security.”

Concerning regulations relating to EV production, the [Canadian Vehicle Manufacturers' Association](#) said that Canada should maintain regulatory alignment with the United States, and argued that “introducing a regulated zero-emission vehicle sales mandate and/or a border carbon adjustment” could adversely affect Canada’s ability to be competitive in producing EVs.

The [Business Council of Canada](#) contended that the Roadmap for a Renewed Canada–U.S. Partnership has “considerable scope” for cooperation between the two countries to combat climate change and facilitate energy transition, including by expanding the production of EV batteries.

[Karim Zaghib](#) suggested that Canada and the United States should form a “scientific committee on innovation, intellectual property and industrialization” as a means of enhancing “market penetration of common technologies” in relation to EV applications and energy storage.



Advocating Against Certain Provisions in the Proposed Build Back Better Act

In commenting on advocacy regarding the U.S. federal tax credits for PEVs contained in the proposed Build Back Better Act, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) stressed that advocacy efforts have been “consistent and strong from the Canadian side, not only from government, but from industry and labour leaders as well.” The [Minister](#) highlighted that the Government of Canada is “working closely with industry on a Team Canada approach” to the proposed credits, and is also “working with … partners in the United States, with businesses, with unions and with policy-makers” to “reach a solution that supports businesses and workers” in both countries. Global Affairs Canada [officials](#) pointed out that, if discussions in the United States about the proposed credits resume, the Government “will be ready to advocate strongly for EV tax credits that [are available for] Canadian-assembled cars as well.”

Regarding U.S. reaction to Canada’s advocacy efforts, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) indicated that some U.S. Senators and members of the U.S. House of Representatives were unaware that provisions for federal tax credits for PEVs were included in the proposed Build Back Better Act, while others were aware of the provisions but needed to study them and still others thought that there was “an alignment and agreement with Canada” on this issue. Similarly, Global Affairs Canada [officials](#) concurred that a number of members of the U.S. Congress were unfamiliar with the details of the proposed credits.

The [Automotive Parts Manufacturers' Association](#) stated that it has been “working closely” with the Government of Canada, including with the Embassy of Canada to the United States, to advocate against the proposed credits. According to the [Automotive Parts Manufacturers' Association](#), the “focus in Washington” is to “appeal to U.S. lawmakers to understand the damage they would be doing to the U.S. auto sector” and that country’s employees if the proposed credits were implemented.

[Canada's Building Trades Unions](#) maintained that Canada and the United States should “find a way to work more collaboratively” concerning the proposed credits in order to “construct good policy that works” for both countries and for the environment. The [Canadian Vehicle Manufacturers' Association](#) proposed that the Government of Canada should “undertake a detailed analysis” of the potential impacts of implementation of the proposed credits on Canada’s automotive sector “to help inform potential solutions and proposals.” [Unifor](#) noted that “finding a permanent and durable solution [to the

countries' difference of opinion about the proposed credits] is critical as we look for solutions to sustain work" in Canada's automotive sector.

In mentioning the efforts of Canada's federal and provincial governments, and "many horizontal organizations," to address the tariffs that the United States applied from June 2018 until May 2019 on certain Canadian steel and aluminum products, the [Canadian Steel Producers Association](#) remarked that there seems to be "a lot of the same" strategy "on the EV tax credit issue."

[Unifor](#) asserted that the Government of Canada should continue its advocacy efforts at all levels of the U.S. government with the goal of ensuring that EV production in Canada is not harmed. [Canada's Building Trades Unions](#) emphasized that, if the proposed credits are implemented, Canada should be "exempt."

[Global Automakers of Canada](#) cautioned that the Government of Canada should ensure that its actions do not expose the country to litigation at the WTO, and identified the need to avoid measures that would either "severely hinder" Canada's goals concerning zero-emission vehicle sales or result in a "significant competitive disadvantage" for automotive producers that are not producing such vehicles in North America.

With a focus on Canada's potential retaliatory measures if the proposed credits are implemented, the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) said that the 10 December 2021 letter sent jointly with the Deputy Prime Minister and Minister of Finance to eight U.S. Senate leaders contained "a clear message" that Canada "will defend its national interests" if the two countries "aren't able to reach a resolution" to their difference of opinion about the proposed credits.²

Concerning dispute settlement, Global Affairs Canada [officials](#) indicated that the Government of Canada has not yet decided whether to take action under CUSMA regarding the proposed credits but will keep this option "open," with Mexico joining Canada in any dispute-settlement action if that country wishes to do so. The [officials](#) stated that the Government of Mexico has expressed "concerns" about the proposed credits. As well, in pointing out that Canada communicates "regularly" with Mexico about the proposed credits, the [officials](#) mentioned that discussions "haven't gone that far" because the Government of Canada is undecided about pursuing dispute settlement under CUSMA.

2 The letter is provided in Appendix A.



Global Automakers of Canada characterized the proposed credits as a “flagrant violation” of CUSMA, and suggested that the Government of Canada should “act forcefully” to ensure that the agreement’s provisions are “enforced.” In its view, the Government should also consult Canada’s automotive sector regarding “appropriate retaliatory mechanisms” if the proposed credits “reappear in a new [Build Back Better Act].”

The Committee’s Thoughts and Recommendations

Over the past two years, both Canada and the United States have signed declarations and agreements that indicate a commitment to enhancing bilateral cooperation on a number of issues, including the electrification of transportation. In this context, the Roadmap for a Renewed Canada–U.S. Partnership is of note. From the Canadian perspective, the Committee recognizes the current and potential contributions that the country’s EV sector—including vehicles, batteries and charging infrastructure—makes to GDP. As well, the Committee is aware that Canada is thought to be a potential global leader in the production of EVs, batteries and automotive parts, partly because of the country’s abundant deposits of certain critical minerals.

That said, in a range of areas of federal public policy, consultations and collaboration facilitate the attainment of desired goals. The Committee sees issues relating to the electrification of transportation in Canada as such a policy area, and also acknowledges the potential benefits of bilateral efforts with the United States in some respects. In particular, consultations and collaboration with relevant stakeholders should occur regarding policies, measures and other actions designed to support: the production and sales of EVs and batteries; the creation of adequate charging infrastructure; the establishment and enhancement of reliable supply chains; the implementation of the federal critical minerals strategy; and, as required, the undertaking of advocacy efforts in the United States.

In light of the foregoing, the Committee recommends:

Recommendation 1

That the Government of Canada develop additional policies and implement further measures aimed at electrifying transportation in Canada. When appropriate, these efforts should include collaboration with governments in Canada, the United States and Mexico, as well as other relevant stakeholders. Moreover, with the goal of standardization, the Government should continue working with other governments in Canada to enhance the country’s network of electric vehicle charging infrastructure.

Recommendation 2

That the Government of Canada undertake consultations about the production of electric vehicles, batteries and automotive parts, as well as the development of related supply chains. In particular, the Government should consult other governments in Canada, consumers, and representatives of organized labour groups and business associations in the following sectors: electric vehicles, batteries, automotive parts and critical minerals. Prior to undertaking consultations, the Government should consider issuing a white paper on the topic of the electrification of transportation in Canada, with a particular focus on goods and services produced and exported by Canada's electric vehicle and other related sectors.

Recommendation 3

That the Government of Canada consider appointing an advisor on the electrification of transportation in Canada. This advisor should work with all relevant stakeholders affected by pertinent federal policies and measures, including those involved in the research, development, innovation and production of electric batteries and automotive parts, as well as electric vehicles, buses, trucks, bikes and other methods of land-based transportation.

Recommendation 4

That the Government of Canada ensure the existence of policies and measures that will lead to a high level of production of electric vehicles, batteries and automotive parts, as well as the mining of critical minerals. Moreover, the Government should ensure the existence of reliable supply chains concerning these products. Finally, the Government should take the following two actions expeditiously: implement the forthcoming federal critical minerals strategy; and add phosphate to Canada's list of critical minerals.

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That the Government of Canada—as required—continue with, and enhance, its advocacy efforts in the United States concerning any potential federal tax credits for U.S.-produced plug-in electric vehicles or other measures that could negatively affect Canadian firms and employees. This advocacy should occur alongside similar efforts by relevant stakeholders, including other governments in Canada, as well as Canadian firms and employees and their representatives. As well, if the United States or Mexico contemplates or implements actions that could disadvantage Canada's electric vehicle and related sectors, the Government should consider taking strong actions that would support Canada's electric vehicle and battery producers and employees.



Recommendation 6

That the Government of Canada consider taking strong actions designed to align current federal incentives for the purchase of Canadian-produced electric vehicles with comparable incentives available in the United States. As well, the Government of Canada should cooperate with the Government of the United States to ensure that current and proposed federal incentives in the two countries for the production and purchase of electric vehicles are consistent with the requirements of the *Canada–United States–Mexico Agreement* and the World Trade Organization.

CHAPTER THREE: THE SOFTWOOD LUMBER SECTOR IN CANADA

Impacts of the Bilateral Relationship on the Sector

In speaking to the Committee about impacts of the Canada–U.S. relationship on the softwood lumber sector in Canada, witnesses focused on the ADs and CVDs that the United States is applying on certain softwood lumber products from Canada, and on supplying those products to foreign markets.

Applying Duties

Global Affairs Canada [officials](#) described the ADs and CVDs that the United States is applying on certain softwood lumber products from Canada as a “tax on the American middle class, and perhaps even the lower class.” The officials asserted that the duties put upward pressure on the prices of single-family homes, low-cost housing and other purchases in the United States.

Similarly, the [British Columbia Council of Forest Industries](#) stated that these ADs and CVDs are exacerbating “inflationary pressures,” with implications for housing affordability. In also noting that the duties are contributing to inflation, the [Quebec Forest Industry Council](#) specifically mentioned a price increase of US\$1.20 for a two-by-four board. According to the [Alberta Forest Products Association](#), the ADs and CVDs are passed on to consumers “when the markets are strong,” and contribute to production stoppages and job losses “[w]hen the market weakens.”

The [Canadian Association of Home Builders](#) suggested that the ADs and CVDs are creating challenges for softwood lumber producers in Canada, including in staffing their facilities and predicting demand for their goods, with implications for the supply and cost of softwood lumber in Canada. It contended that home builders, renovators and consumers in Canada are affected by the price volatility and uncertainty caused by these

U.S. duties. The [Alberta Forest Products Association](#) remarked that the duties “create uncertainty” and “undermine ... economic stability.”

Moreover, the [British Columbia Council of Forest Industries](#) maintained that changes in the AD and CVD rates over time are “destabilizing,” create uncertainty and make planning difficult. In agreeing that the rate variability is leading to uncertainty, the [Quebec Forest Industry Council](#) commented that a lack of long-term predictability will lead the softwood lumber sector in Canada to have difficulties in investing, developing new products and “planning for the future.”

Supplying Foreign Markets

The [British Columbia Council of Forest Industries](#) observed that, in recent years, U.S. demand for softwood lumber imports—including from Canada—has “substantially” increased at a time when U.S. producers have been unable to meet domestic demand for softwood lumber products. Similarly, [Resolute Forest Products](#) claimed that U.S. producers cannot supply more than 70% of U.S. softwood lumber demand.

The [Quebec Wood Export Bureau](#) said that exporters of softwood lumber products from Canada cannot “depend entirely” on the U.S. market and emphasized the need to diversify export markets, including for two-by-four boards. Furthermore, in describing the United States as the primary export market for softwood lumber products from British Columbia, the [British Columbia Council of Forest Industries](#) highlighted that the softwood lumber sector in that province is attempting to reduce its dependence on the U.S. market. It drew particular attention to the goal of increasing exports of certain softwood lumber products to other regions, including Asia.

However, [Resolute Forest Products](#) and the [Quebec Wood Export Bureau](#) identified several logistical challenges associated with maritime transportation of certain softwood lumber products from Canada to non-U.S. markets, including in China and Europe. According to [Resolute Forest Products](#), softwood lumber products “[do not] travel very easily in general,” including by vessel. [Resolute Forest Products](#) also pointed out that, because of their weight and volume, it is “not optimal” for certain of these products to be transported by vessels if the distances are long.

The [British Columbia Council of Forest Industries](#) discussed several factors that have hindered the ability of those exporting softwood lumber products from Canada “to get ... [their] product to market,” including temporary closures of the Canada–U.S. border, global supply chain disruptions, and such natural disasters as floods and fires. Furthermore, the [Forest Products Association of Canada](#) asserted that the current



shortages of drivers and other employees in the transportation sector have contributed to backlogs in moving such products by truck and rail, and have led some mills to close temporarily.

The [Forest Products Association of Canada](#) characterized the proposed de-forestation legislation in New York and California as “anti-Canadian” forestry bills that “are designed to restrict Canadian forest exports” by limiting the extent to which these states can purchase forest products from Canada. The [Forest Products Association of Canada](#) added that California Governor Gavin Newsom vetoed one such bill in 2021, although similar legislation has been introduced or re-introduced by state senators and representatives in that state and in New York. As well, the [Forest Products Association of Canada](#) mentioned that the U.S.-based Natural Resources Defense Council, which is “anti-Canadian,” supports these bills, and expressed concern that the implementation of such bills would be “disastrous for Canadian forestry families and communities.”

In commenting on U.S. demand for softwood lumber products, the [Quebec Forest Industry Council](#) underlined that ongoing “discussions on woodland caribou” and sustainable forestry in Canada, particularly concerning “conservation areas” and “intense [softwood lumber] production areas,” have affected the ability of certain firms in Canada to identify areas for “intense production.” The Quebec Forest Industry Council argued that, as a result, these firms may not make the necessary investments to compete in foreign markets, such as the United States.

Government of Canada Actions

Witnesses made comments to the Committee about the Government of Canada’s actions to: address the ADs and CVDs that the United States is applying on certain softwood lumber products from Canada; negotiate an agreement to resolve the current bilateral softwood lumber trade dispute; engage in advocacy and collaborate concerning the duties; diversify export markets for softwood lumber products from Canada; and provide federal supports to the softwood lumber sector in Canada.

Addressing Duties

The [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) stated that, as the current softwood lumber trade dispute with the United States persists, the Government of Canada will continue to defend the softwood lumber sector in Canada. Global Affairs Canada [officials](#) underscored that Canada has used the WTO’s dispute-settlement mechanism, as well as the mechanisms in NAFTA and CUSMA, to challenge the ADs and CVDs that the United States is currently applying on certain

softwood lumber products from Canada. The officials also highlighted that Canada has had “successful” outcomes in previous softwood lumber trade disputes with the United States.

Resolute Forest Products recognized the Government of Canada’s “tenacity and steadfast support” for the softwood lumber sector in Canada during the most recent trade dispute between Canada and the United States. Moreover, Resolute Forest Products expressed confidence that, “as they have consistently done in the past,” the WTO, NAFTA and CUSMA dispute-settlement panels will decide in favour of those exporting softwood lumber products from Canada, with the Canadian Home Builders’ Association agreeing that previous panels have “always sided with Canada.” Moreover, Resolute Forest Products described a 2020 WTO panel’s CVD-related decision as a “major victory” for Canada because the panel “undercut” most of the U.S. Department of Commerce’s arguments. That said, it also indicated that the United States has appealed the panel’s decision, although the country continues to refuse to appoint members to the WTO’s Appellate Body.

The British Columbia Council of Forest Industries commented that Canada had a “terrific win” in its current WTO dispute-settlement proceedings in relation to the CVDs. According to the British Columbia Council of Forest Industries, Canada needs the WTO’s dispute-settlement mechanism, a “well-functioning” Appellate Body and timely settlement of disputes. The Alberta Forest Products Association contended that Canada’s use of the WTO and CUSMA “appeals processes” continues to have value. As well, the Alberta Forest Products Association noted the importance of ensuring that signatories to trade agreements appoint individuals to dispute-settlement panels.

In providing a different perspective, Pilot Law LLP’s Mark Warner—who appeared as an individual—doubted that Canada could resolve the current softwood lumber trade dispute with the United States through the dispute-settlement mechanisms contained in trade agreements. Mark Warner characterized the decisions of dispute-settlement panels examining the ADs and CVDs that the United States has applied on certain softwood lumber products from Canada as “narrow legalistic victories” for Canada that “don’t stick” and are “hard to enforce.”

Meadow Lake Tribal Council Industrial Investments said that the amounts collected by the United States relating to that country’s application of ADs and CVDs on some softwood lumber products from Canada should be returned to any Indigenous softwood lumber firms that paid such duties. As well, Meadow Lake Tribal Council Industrial Investments emphasized that any amounts it received would be used to finance First Nations communities, infrastructure projects and social programs.



The [British Columbia Council of Forest Industries](#) estimated that, between the beginning of the most recent bilateral softwood lumber trade dispute and 23 March 2022, more than \$7 billion had been collected from softwood lumber producers in Canada. It suggested that any amounts returned could be invested in production facilities and equipment, employees and communities. [Resolute Forest Products](#) stressed that—as of 28 March 2022—it had paid US\$430 million in duty deposits that are “trapped at the [Canada–U.S.] border,” and underscored that it is unable to use those funds to make investments that would enhance its operations.

According to the [British Columbia Council of Forest Industries](#), the Government of the United States cannot remove the ADs and CVDs that it is currently applying on certain softwood lumber products from Canada unless a specific proportion of U.S. softwood lumber producers confirm that they are not being harmed by imports of these products. Recognizing that the Government of the United States cannot terminate the duties without this degree of support, the [Quebec Forest Industry Council](#) remarked that the Government could “significantly” lower the duty rates “if it wants” to do so.

Negotiating a Bilateral Agreement

The [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) indicated that the Government of Canada and the softwood lumber sector in the country want to resolve the current softwood lumber trade dispute between Canada and the United States with “a good agreement—not any agreement.” Global Affairs Canada [officials](#) contended that a negotiated resolution to the dispute would be in the best interests of both countries. However, the [officials](#) cautioned that—as of 7 February 2022—the United States was not ready to negotiate a mutually beneficial agreement. The [officials](#) predicted that, once Canada succeeds in its current WTO, NAFTA and CUSMA dispute-settlement proceedings, the United States will “return to the negotiating table, in earnest, to negotiate a fair and equitable agreement” to govern bilateral softwood lumber trade.

In [Resolute Forest Products’ view](#), any softwood lumber trade agreement between Canada and the United States must “be in Canada’s best interests” and “should not come at any cost.” [Resolute Forest Products](#) also stated that any such agreement should acknowledge Quebec’s “forestry regime.” Moreover, [Resolute Forest Products](#) claimed that—as of 28 March 2022—there did not appear to be “much … political will” in the United States to resolve the bilateral softwood lumber trade dispute. The [Quebec Wood Export Bureau](#) provided a different perspective, commenting that “this is a great time” to negotiate a resolution to the dispute, including because commodity and lumber prices are expected to rise, and wood products will be in short supply for years to come.

[Mark Warner](#) spoke about the potential for a “grand bargain” between Canada and the United States that could resolve the softwood lumber trade dispute between the two countries. According to Mark Warner, Canada could make commitments about supplying critical minerals and/or making other “concrete attempts to deal with some ... issues that are front of mind” for the United States, and the United States could make concessions in relation to Canadian softwood lumber products and the Keystone XL pipeline permit, for example.

Engaging in Advocacy and Collaborating

Global Affairs Canada [officials](#) pointed out that Prime Minister Justin Trudeau discussed the current softwood lumber trade dispute between Canada and the United States with President Joe Biden in November 2021, and noted that the Minister of International Trade, Export Promotion, Small Business and Economic Development raised the topic with U.S. Secretary of Commerce Gina Raimondo and U.S. Trade Representative Katherine Tai. The [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) drew attention to a meeting convened in Washington, D.C. that included members “from all sides” of the House of Commons and representatives of the U.S.-based National Association of Home Builders.

[Resolute Forest Products](#) suggested that the Government of Canada should continue discussions with the U.S. administration about resolving the current bilateral softwood lumber trade dispute. The [Forest Products Association of Canada](#) emphasized that the Government should enhance its advocacy efforts in the United States, at both the federal and state levels, concerning forest management practices in Canada.

Global Affairs Canada [officials](#), the [British Columbia Council of Forest Industries](#) and the [Quebec Forest Industry Council](#) highlighted the importance of a “team Canada” approach to resolving the current softwood lumber trade dispute between Canada and the United States. The officials mentioned the Government of Canada’s collaboration with firms, provinces and territories, Indigenous partners and “other stakeholders” in its efforts to resolve the dispute. The [Quebec Forest Industry Council](#) encouraged the Government to consult the provinces, forestry sector stakeholders and relevant other partners in Canada about the “best course of action” to end the dispute, while [Resolute Forest Products](#) called on the Government to work with softwood lumber producers in Canada to “ensure a good exchange of information.”

[Meadow Lake Tribal Council Industrial Investments](#) contended that the Government of Canada should “protect” Indigenous-owned firms in Canada from “any future softwood lumber agreement,” as well as ADs and CVDs applied by the United States on softwood



lumber products from Canada. It observed that, in signing CUSMA, Canada, the United States and Mexico agreed to strengthen their collaboration on promoting small and medium-sized firms that are owned by under-represented groups, including women, Indigenous peoples, youth and minorities. As well, Meadow Lake Tribal Council Industrial Investments underscored that CUSMA does not prevent the signatories from adopting or maintaining measures needed to uphold their legal obligations to Indigenous peoples. As well, it stressed that CUSMA recognizes the importance of enhancing Indigenous peoples' engagement in trade and investment.

Diversifying Exports

The [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) characterized “diversification and creating greater market opportunities” for firms in Canada, “particularly in the forestry sector and for softwood lumber,” as “really important.” The Minister indicated that previous federal diversification efforts led the value of softwood lumber exports from Canada to more than double over the 2009 to 2019 period, rising from \$3.8 billion to more than \$8 billion, with “exports to countries in Asia booking strong growth.” As well, the Minister stated that, over that period, the value of such exports to Japan, South Korea and the Philippines increased by 20%, 25% and 230%, respectively.

In the view of the [Minister of International Trade, Export Promotion, Small Business and Economic Development](#), such trade agreements as the *Canada–European Union Comprehensive Economic and Trade Agreement*, the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* and CUSMA have created greater market opportunities in Europe, the Asia-Pacific region and North America for the softwood lumber sector in Canada. Regarding Canada’s trade negotiations with Indonesia and the Association of Southeast Asian Nations, the Minister underlined the Government of Canada’s ongoing efforts to pursue “more opportunities to grow into new markets” in the Asia-Pacific region for softwood lumber and other firms in Canada.

Global Affairs Canada [officials](#) also commented on softwood lumber exports from Canada to Asia, noting that a firm in Merritt, British Columbia worked with the Trade Commissioner Service to secure a new contract to export lumber to South Korea. The [officials](#) described efforts to help firms in Canada diversify both their products exported and their foreign markets in Asia as “very successful.” In providing an example, the officials said that the Trade Commissioner Service helped such firms to increase both the “amount of softwood lumber” and “the technology value-added [softwood lumber] products” exported to Japan.

The [British Columbia Council of Forest Industries](#) remarked that, in partnership with Natural Resources Canada, the Province of British Columbia “had led the charge in developing overseas markets.” It described that Natural Resource Canada’s Expanding Market Opportunities Program is a “gold star example of how to work in partnership and deliver results.”

In arguing that it is not possible to diversify exports of softwood lumber products from Canada without access to the lands from which timber can be harvested, the [Quebec Wood Export Bureau](#) speculated that—in future—the softwood lumber sector in Canada will not have “more access to land for logging in Canada, despite the demand, given the rules around biodiversity conservation.” The Quebec Wood Export Bureau added that the only options for the sector to develop new products are continuing to harvest timber from existing lands and/or producing “added value” products in the short term.

While recognizing that there is “room for [establishing] conservation areas” in Canada for woodland caribou, the [Québec Forest Industry Council](#) stressed that “there must also be intense production areas” for harvesting timber.

Providing Federal Supports

The [Minister of International Trade, Export Promotion, Small Business and Economic Development](#) emphasized the importance of supporting the firms and employees from the softwood lumber sector in Canada “through programs that also are helping them be innovative,” such as the Softwood Lumber Action Plan. Global Affairs Canada [officials](#) pointed out that the 2019 federal budget announced \$251 million over three years to “encourage innovation and growth in the forestry sector.” According to the officials, these funds were allocated to programs and other initiatives relating to innovation, sectoral transformation, expanded market opportunities and Indigenous-led economic development in the sector.

The [Canadian Home Builders' Association](#) urged the Government of Canada to “deal swiftly with transportation disruptions within Canada,” whether such disruptions relate to imports, labour and transportation disruptions or other infrastructure-related issues. The [Alberta Forest Products Association](#) asserted that promoting the ability of the forestry sector in Canada to harvest timber while causing “zero deforestation” will help to promote the “sector’s access to international markets.”

Regarding the proposed de-forestation legislation in New York and California that could negatively affect exports of certain softwood lumber products from Canada, the [Forest Products Association of Canada](#) said that the Government of Canada should undertake a



legal review of the proposed legislation to determine consistency with trade agreement obligations.

The Committee's Thoughts and Recommendations

In Canada, the forestry sector is a significant contributor to GDP and the primary source of economic activity in many communities. The Committee observes that, among other factors, the sector's prosperity depends on access to foreign markets, especially the United States, and an absence of measures that negatively affect trade, including those imposed by the United States. As leading global suppliers of softwood lumber products, firms in Canada should continue to have the opportunity—and the ability—to export their products to markets throughout the world, and should be able to do so in an efficient and cost-effective way.

Various existing policies, measures and other initiatives support the softwood lumber sector in Canada, including in relation to trade. The Committee notes, for example, the advocacy that the Government of Canada undertakes in the United States during each softwood lumber trade dispute, the Trade Commissioner Service's work at numerous locations throughout the world, and the role that existing trade agreements make—and future agreements could make—to ensuring access to foreign markets, particularly when those agreements are respected and other jurisdictions propose legislation that is fully consistent with their trade obligations. To help ensure the sector's future success, firms and employees need continued efforts in these areas, alongside access to lands from which to harvest timber, and investments in existing and new infrastructure to get softwood lumber products from Canada to foreign markets.

Accordingly, the Committee recommends:

Recommendation 7

That the Government of Canada, in its efforts to resolve the current softwood lumber trade dispute between Canada and the United States, prioritize outcomes that meet two objectives: ensure and enhance access by softwood lumber producers in Canada to the U.S. market; and return anti-dumping and countervailing duty amounts collected by the United States to the producers that have paid them. These efforts should be informed by input from other governments in Canada, as well as by firms, employees and their representatives.

Recommendation 8

That the Government of Canada work with other governments in Canada with the goal of ensuring that firms in the domestic softwood lumber sector can access lands from which timber can be harvested.

Recommendation 9

That the Government of Canada collaborate with other governments in Canada, as well as with firms, employees and their representatives, with the aim of diversifying both the softwood lumber products that are exported from Canada and the foreign markets to which they are exported. As part of its diversification efforts, the Government should rely on the efforts of the Trade Commissioner Service's network of trade representatives located throughout the world. Moreover, when negotiating new or updating existing trade agreements, the Government should consider the forestry sector to be a key sector in Canada.

Recommendation 10

That the Government of Canada—on an ongoing basis—assess whether legislation proposed in countries that are trading partners, including for softwood lumber products, is consistent with those countries' trade obligations in relation to Canada.

Recommendation 11

That the Government of Canada make substantial investments in existing and new infrastructure to support the efficient and cost-effective transportation of softwood lumber products from Canada to foreign markets. As well, the Government should implement measures to enhance the ability of firms to supply the global demand for softwood lumber products from Canada in a timely and competitive manner.

CHAPTER FOUR: CONCLUSION

Trade is a significant contributor to Canada's economy and helps to ensure the country's prosperity, with benefits for employees, firms and communities. The United States has long been Canada's primary export market and source of imports. The Committee is aware that the two countries' shared values and common interests have strengthened trade and other economic ties on both sides of the Canada-U.S. border.

In general, the Canada-U.S. trade relationship is not characterized by disagreements. That said, the Committee acknowledges that a trade relationship having the breadth and



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scope of this bilateral relationship is unlikely to be free of differences of opinion, at least from time to time: trade disputes are inevitable, but they are not insurmountable. The Committee is hopeful that, as they have done in the past, Canada and the United States will continue to cooperate on trade and other issues, and will resolve current, potential and future bilateral trade disputes—including in relation to softwood lumber through discussions, advocacy and, as required, the dispute-settlement mechanisms in trade agreements.

APPENDIX A



Government
of Canada Gouvernement
du Canada

Ottawa, Canada
K1A 0G5

December 10, 2021

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

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

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

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

The Honorable James Risch
Ranking Member
Foreign Relations 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

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,

A handwritten signature in blue ink, appearing to read "Chrystia Freeland".

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

A handwritten signature in blue ink, appearing to read "Mary Ng".

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

APPENDIX B

LIST OF WITNESSES

The following table lists the witnesses who appeared before the committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the committee's [webpage for this study](#).

Organizations and Individuals	Date	Meeting
Automotive Parts Manufacturers' Association Gian Paolo Vescio, General Counsel	2022/02/02	3
Canada's Building Trades Unions Sean Strickland, Executive Director	2022/02/02	3
Canadian Vehicle Manufacturers' Association Brian Kingston, President and Chief Executive Officer	2022/02/02	3
Electric Mobility Canada Daniel Breton, President and Chief Executive Officer	2022/02/02	3
Toyota Motor Manufacturing Canada Inc. Scott MacKenzie, Senior National Manager, External Affairs	2022/02/02	3
Unifor Angelo DiCaro, Director, Research Department Shane Wark, Assistant to the National President	2022/02/02	3
Department of Finance Michèle Govier, Director General, International Trade Policy Division	2022/02/07	4
Department of Foreign Affairs, Trade and Development Arun Alexander, Associate Assistant Deputy Minister, Trade Policy and Negotiations Michael Cannon, Director, Softwood Lumber Division Doug Forsyth, Director General, Market Access Michael Grant, Assistant Deputy Minister, Americas David Morrison, Deputy Minister, International Trade	2022/02/07	4

Organizations and Individuals	Date	Meeting
Hon. Mary Ng, P.C., M.P., Minister of International Trade, Export Promotion, Small Business and Economic Development		
Department of Industry	2022/02/07	4
Mary Gregory, Associate Assistant Deputy Minister, Industry Sector		
Aluminium Association of Canada	2022/02/09	5
Jean Simard, President and Chief Executive Officer		
As an individual	2022/02/09	5
Karim Zaghib, Professor, Concordia University and Professor of Practice, McGill University		
Business Council of Canada	2022/02/09	5
Trevor Kennedy, Vice-President, Trade and International Policy		
Canadian Chamber of Commerce	2022/02/09	5
Mark Agnew, Senior Vice-President, Policy and Government Relations		
Canadian Steel Producers Association	2022/02/09	5
Catherine Cobden, President and Chief Executive Officer		
Global Automakers of Canada	2022/02/09	5
David Adams, President and Chief Executive Officer		
Alberta Forest Products Association	2022/03/23	10
Jason Krips, President and Chief Executive Officer		
As an individual	2022/03/23	10
Mark Warner, Counsel, Pilot Law LLP		
British Columbia Council of Forest Industries	2022/03/23	10
Susan Yurkovich, President and Chief Executive Officer		
Forest Products Association of Canada	2022/03/23	10
Derek Nighbor, President and Chief Executive Officer		
Quebec Forest Industry Council	2022/03/23	10
Jean-François Samray, President and Chief Executive Officer		
Michel Vincent, Director, Economics and Trade		

Organizations and Individuals	Date	Meeting
Quebec Wood Export Bureau	2022/03/23	10
Sylvain Labbé, Chief Executive Officer		
Canadian Home Builders' Association	2022/03/28	11
Kevin Lee, Chief Executive Officer		
Meadow Lake Tribal Council Industrial Investments	2022/03/28	11
Al Balisky, President and Chief Executive Officer		
Resolute Forest Products	2022/03/28	11
Rémi Lalonde, President and Chief Executive Officer		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 3, 4, 5, 8, 9, 10, 11, 23 and 31) is tabled.

Respectfully submitted,

Hon. Judy A. Sgro
Chair

