CCAQ
CORPORATION DES CONCESSIONNAIRES AUTOMOBILES DU QUÉBEC

Global Automakers of Canada

Canadian Vehicle Manufacturers' Association
Association canadienne des constructeurs de véhicules

BRIEF OF **THE CORPORATION DES CONCESSIONNAIRES AUTOMOBILES DU QUÉBEC** (CCAQ) **GLOBAL AUTOMAKERS OF CANADA** (GAC) AND **CANADIAN VEHICLE MANUFACTURERS' ASSOCIATION** (CVMA) **CONCERNING BILL 81: AN ACT TO AMEND VARIOUS ENVIRONMENTAL PROVISIONS**

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1. INTRODUCTION

The Corporation des concessionaires automobiles du Québec (CCAQ), the Global Automakers of Canada, and the Canadian Vehicle Manufacturers' Association thank the Government of Québec for the opportunity to present their its observations on Bill 81, entitled "An Act to amend various environmental provisions". We applaud the government's efforts to reduce greenhouse gas (GHG) emissions and promote Zero-Emission vehicles (ZEVs).

However, our Associations hope that this brief will be a call for great caution on the part of the Government of Québec and that special attention will be paid to the potential negative impacts that the implementation of a ZEV standard would have on the heavy trucking industry. It is essential that Québec maintain consistency in its standards with all North American jurisdictions to preserve Québec's competitiveness and economic vitality, at the level of dealers, manufacturers, transport companies and other stakeholders dependent on transport sector services. An isolated or misaligned approach would present a risk of normative isolation, thus limiting Québec's capacity to integrate effectively into an interconnected continental market.

2. ANALYSIS OF THE PROVISIONS OF BILL NO. 81

2.1. Extension of the ZEV credit system to heavy-duty vehicles

Bill No. 81 provides for the extension of the ZEV credit system to heavy-duty vehicles, in addition to light-duty vehicles. This extension implies that manufacturers and, by extension, dealers, will have increased obligations regarding the sale or lease of Zero-Emission heavy-duty vehicles.

2.2. Enabling provisions and regulatory uncertainties

Several provisions of the Act are « enabling ones », meaning that the precise terms will be determined by subsequent regulations. This uncertainty complicates the preparation of all players in the automotive industry, both at the dealer and manufacturer levels, which can lead to unforeseen operational and financial challenges. This concern is heightened when we see that the Minister retains the right to change all mechanisms for accumulation, transfer and use of credits, both for light-duty vehicles and heavy-duty vehicles. Considering the product development cycle of manufacturers, such uncertainty makes this planning more complex, expensive and hazardous. As such, consultation open to seeking feedback during the regulatory development stage or any subsequent amendments will be critical to its success. With respect to Bill 81, there are provisions which would benefit from clarity and provide certainty to industry and government that are presented in detail in Section 7 of this brief.

3. DIFFERENCES BETWEEN THE HEAVY-DUTY AND LIGHT-DUTY ELECTRIC VEHICLE MARKETS

It is important to recognize that there are significant differences between the heavy-duty and light-duty electric and fuel cell vehicle markets. Equating the two markets or applying the same regulatory requirements to both categories could lead to undesirable effects and slow down the transition to more sustainable transport.

3.1. Market maturity

The light-duty electric vehicle market is more advanced, while the heavy-duty vehicle electric and fuel cell vehicles are still in their infancy, with marked technological and economic challenges.

3.2. Technology and innovation

Technical barriers such as energy density, range and recharge or refuelling time are more complex to overcome in the case of heavy-duty vehicles. The variety of potential use-cases of any given work truck model only adds to this challenge.

For example:

- Will it be used for long-haul or short ?
- Will it be working all day, or will it be running bed mounted equipment at a job site ?
- Will it be an emergency vehicle that must be capable of more aggressive driving maneuvers ?
- Etc.

In addition, a ZEV mandate should not impede the development of new advanced technologies or approaches to environmental responsibility.

3.3. Charging and refuelling infrastructure

Charging and refuelling infrastructure suitable for heavy-duty vehicles remains embryonic and will require substantial investments. Without which the demand for these vehicles by individuals, small businesses, and fleets will certainly limit sales, regardless of how many are supplied.

3.4. Costs and business models

Heavy-duty electric and fuel cell vehicles are likely to remain more expensive to purchase, requiring to make larger upfront capital investments in both the vehicle and infrastructure as well as incentives, thereby limiting their adoption.

4. POTENTIAL IMPACTS FOR THE AUTOMOTIVE INDUSTRY

4.1. Increased Obligations for Heavy-Duty ZEVs

Limited availability, high costs and lack of infrastructure create a set of constraints for dealers and carriers. The implementation strategy for these new technologies must also allow time for the professional training of the technicians who will be assigned to them, as well as for investments in sales and maintenance services, not including refuelling or recharging stations.

4.2. Administrative and Financial Burdens

Monitoring credits, training staff and compiling reports are all costs that companies will look to recover.

4.3. Competitiveness and Fairness

Overly strict and unsuitable obligations could disadvantage Québec companies, weakening their position in an interconnected North American market.

5. WHY IT WOULD BE INAPPROPRIATE TO DUPLICATE THE HEAVY-DUTY AND LIGHT-DUTY VEHICLE CATEGORIES

5.1. Inadequacy of regulatory obligations

The fundamental differences between light-duty and heavy-duty EVs make a uniform approach inappropriate. Since 2B and 3 vehicles are often sold through the same dealers, the difference in status between light and heavy-duty vehicles will also bring an administrative burden and increased potential for confusion for dealers and their customers.

5.2. Differences in demand and adoption

The distinct operational, financial and logistical constraints of the heavy-duty transportation sector require adapted rules.

5.3. Operational constraints

The integration of heavy-duty EVs into supply chains is more complex and requires specific measures.

5.4. Economic impact:

Inadequate obligations could harm investment, innovation and Québec's competitiveness.

6. CCAQ, GAC AND CVMA RECOMMENDATIONS

6.1. Development of a consistent approach across North America

The heavy-duty transportation sector is highly integrated into the North American market, encompassing dealers, manufacturers, transportation companies, businesses, and governments that operate in a competitive environment on a continental scale. To avoid regulatory isolation that would make Québec less attractive for investment and trade, it is imperative to harmonize the operational aspects of a ZEV mandate with those of other North American jurisdictions. Including key flexibilities found in other programs such as the ability to exchange credit between light and heavy-duty fleets, early action credits, credit life of at least five years, and a three-year carry back. Without this harmonization, potential risks include :

- Additional costs for dealers and the automotive industry to sell EVs at a rate higher than market demand, or alternatively, to reduce the supply of conventional technology vehicles. This affects both dealers and manufacturers, who are required to offer vehicles that comply with divergent standards.
- Increased pressure on the competitiveness of Québec transportation companies, businesses and governments, who are subject to more restrictive rules than their American competitors or those from other provinces.
- A slowdown in investment and innovation, hampering the modernization of the heavy-duty transportation sector in Québec.
- Regulatory isolation that would compromise Québec's full integration into North American supply chains, limiting its ability to take full advantage of trade.

Adopting a ZEV standard that is consistent with our continental partners, which takes into consideration Québec's adoption challenges, will protect the province's economic strength, while supporting the ecological transition within a stable, predictable and competitive framework.

6.2. Gradual phasing of obligations

The gradual introduction of requirements will allow market players to adapt to the pace of technological and infrastructure development.

6.3. Financial support and incentives

Subsidies, tax incentives and support programs would help encourage the acquisition of heavy-duty EVs and modernize dealership facilities.

6.4. Development of charging infrastructure

Public investments are essential to deploy an adapted charging and refuelling network, facilitating the adoption of heavy-duty ZEVs across the territory.

6.5. Ongoing consultation with the industry

Ongoing dialogue is necessary to develop realistic solutions, tailored to market needs and the challenges of the heavy-duty transportation sector.

6.6. Promoting innovation

By supporting R&D and public-private partnerships, Québec will promote the improvement of technologies and the emergence of more efficient electric and fuel cell heavy-duty vehicles.

7. CLARITY TO ACHIEVE THE BILL'S INTENT: DETAILED AUTO INDUSTRY COMMENTS AND RECOMMENDED AMENDMENTS

We remain concerned that the Government is moving forward with putting in place enabling provisions for heavy-duty vehicle ZEV. The sector is complex and advanced technology deployment in the various sub-categories is at various stages and some even its infancy. Should the Bill move ahead, we offer these specific industry-specific changes to the Bill.

Some of these need to be corrected should the Bill is to proceed as for example, it cannot be that a particular vehicle be regulated in both the light-duty and heavy-duty fleets.

Issue 1: Section 2 - Definition of Heavy Motor Vehicle

Section 2 of the Act is being amended to include a definition of a « heavy motor vehicle » that states it is based on the vehicle's gross vehicle weight rating <u>including that of any trailer, semi-trailer or detachable axle towed by that vehicle</u>, which is known as the « gross combined weight rating » (GCWR). The existing definition of a « motor vehicle » references only the gross vehicle weight rating (GVWR) and does not include the vehicle towing capabilities.

This is a significant difference that must be corrected as it creates two different « cut points » when defining the heavy-duty and light-duty fleets. As a result, many vehicles with a GVWR less than 4536 kg but a GCWR greater than 4536 kg would be classified as both heavy-duty and light-duty under this amendment, which is not feasible and must be corrected.

Recommended change to the Section 2:

"heavy motor vehicle" means a motor vehicle used to carry persons or property on a public highway and whose gross vehicle weight rating, ~~including that of any trailer, semi-trailer or detachable axle towed by that vehicle~~, is greater than 4,536 kg.

Issue 2: Section 3.2 -Motor Vehicle Manufacturer

The term « motor vehicle manufacturer » is being defined in the amendment to Section 2 of the Act, but the term « main parts » of a vehicle is undefined. This will likely lead to uncertainty when trying to determine who is the responsible manufacturer of a particular vehicle. A determination, in the heavy-duty vehicle space, which is already complicated by the existence of manufacturers of both complete and incomplete vehicles, manufacturers that either complete or upfit these vehicles, different manufacturers or importers of record, and vehicles that are exported and not offered for final sale within the province of Quebec. Clarity will be needed to ensure vehicles and manufacturers are properly identified and would be best done in regulation so that changes can be adopted easily

Recommendation :

The definition should be simplified and include « or as prescribed in regulation » to provide the government with flexibility to adjust as needed.

Issue 3 : Exemption of Certain Type of Vehicles

The amendment to Section 3.2 of the Act is providing the government with appropriate flexibility given the complicated nature of the use cases found within the heavy-duty fleet. We recommend that the wording be modified to allow the government to allocate credits to those manufacturers who are early movers in this space. This change would allow manufacturers to decide to include or exclude a given type, as opposed to being outright excluded and would encourage early movers to enter the market.

Recommended Change to Section 3.2 :

The Minister may, for one or more model years, allow vehicle manufacturers to exclude certain types of heavy motor vehicles from the calculation of sales or leases provided for in the first paragraph of section 3.1.

Issue 4 : Clarifying Model Years and Calendar Years – Section 8(1)

The intent of the amendment of Section 8(1) is welcomed as the defining of the 3-year periods has always been challenging due to the industry use of « model years » that do not necessarily align with « calendar years ». We applaud the proposed amendments; however, we believe that refinements are needed to properly reflect the intent of the Ministry and how volumes have historically been reported.

Recommended Change to Section 8(1) :

"The Minister establishes, not later than 1 September of the calendar year following each period of three consecutive **model** ~~calendar~~ years, on the basis of the information entered in the register referred to in section 11, the number of credits accumulated up to that date by a motor vehicle manufacturer referred to in section 3 for each of the three model years ~~that corresponds~~ correspond to **the period** ~~one of the three calendar years concerned~~.

For any period subsequent to the one that includes the model years 2022, 2023 and 2024, the Minister establishes the credits referred to in the first paragraph not later than 1 October of **the calendar year following the last model year of the period**.

The first period of three consecutive **model** ~~calendar~~ **years** includes the model years 2019, 2020 and 2021."

Issue 5 : MY2034 in the ZEV Act

When the ZEV Act was initially put into place, the targets for the 7th such period that includes model years 2034, 2035, and 2036 were not explicitly written and there was no legislated ban on certain classes of vehicles (ICE ban). Today, the 2034 model year is an anomaly within this group, being the only model year not required to be 100%. As such it would be appropriate to include the 2034 model year with the model years 2031-2033.

Recommended Change to Section 8(1):

Add the following after the third paragraph.

The last period of consecutive model years includes the model years 2031, 2032, 2033, and 2034.

Issue 6: Section 10 – Reporting date

We are opposed to the amendment to Section 10 of the Act. Vehicle manufacturers have numerous reporting responsibilities not only for Québec but also for various jurisdictions and the current calendar spacing of these reports provides sufficient time to compile the necessary data and complete the reports. Additionally, due to the requirement for vehicles to be registered for credit generation, this would create the potential for vehicles not yet sold to be missed with an earlier reporting date. This is particularly true in the case of heavy-duty vehicles that sometimes require third party completion or upfitting, or if part of a fleet order may not be entered into service (i.e., registered) right away.

Recommendation:

Maintain the reporting date as September 1 as outlined, or as suggested by MELCCFP to September 15th to allow additional time for the new and currently unknown reporting requirements that may come with the addition of heavy-duty. This would be similar to how Section 12 of the Act is being amended to provide the Ministry with additional time to process this new reporting. Alternatively, this date could be set in regulation.

Issue 7: Early Action

As has been detailed already, the heavy-duty vehicle space is far more complex than that of light-duty. Meaning that the introduction of new technology vehicles is likely to also be more complex. Missing from these amendments are enabling powers for the government to issue early action credits to vehicle manufacturers that are market leaders. The California Air Resources Board (CARB) provided 3 model years of early action credits that had a credit life of not less than 5 years. Writing enabling legislation now, would allow the Minister to consider including such provisions in regulation, which could contribute to earlier GHG reductions.

Recommendation:

Add enabling powers in the legislation to allow for the issuance of early action credits in regulation.

Item 8: Regular Review and Assessment

Section 66 of the Québec ZEV Act requires the Ministry to report to the government on the implementation of the Act and every four years to table a report in the National Assembly. The ZEV penetration in the light-duty fleet has been challenging to achieve and we believe that the HDV experience will be even more challenging.

Regular review and consultation will be needed as frequently as annually to ensure any obligations placed on the sector remain viable. Not having companion legislation such as California's Advanced Clean Fleet will necessitate adjustments based on an evaluation of the progress made in the development and implementation of « demand » side drivers such as charging and refuelling infrastructure, financial incentives to assist with higher initial investments and non-financial incentives.

Recommended addition:

Add a provision in the ZEV Act for the Ministry to consult with the sector to assess and evaluate the market conditions relative to the feasibility of achieving the requirements that would be set and adjust the ZEV requirements and report to the National Assembly.

Issue 9: Bill 81 – Other Act Amendments

Bill 81 also provides new powers to extend obligations to participants throughout the value chain of certain designated residual materials other than producers and producer responsibility organizations which is encouraging when considering expansion of EPR programs to new products. It also includes powers to require producers to compensate these other enterprises associated with the collection, transportation, conditioning, valorization or recycling of certain residual materials.

We understand this provision may be an important consideration for select categories of materials found in products that do not have inherent value or are not in value chains where materials are contained in other products with inherent value. Caution is needed to ensure that additional costs are not inadvertently added to Quebec consumers where there are already programs in place to protect the environment.

We recommend:

We recommend methods to calculate compensation, factors that need to be considered, and requirements for mandatory consultation should be added as these are not included in the Bill so that costs remain competitive for Québec consumers and support a circular economy.

The market and industry are currently managing EV batteries and EPR is not recommended for these materials. Amendments should be made to the residual hazardous material requirements that would reduce barriers to the efficient and cost-effective movement of certain residual materials such as lithium-ion batteries which would be beneficial to the creation of a circular economy for batteries and potentially help attract batteries for recycling or repurposing from outside the province. The auto sector recommends that the MELCCFP consult and engage with industry stakeholders to identify unique barriers in Quebec and how regulatory amendments could help address these concerns.

8. CONCLUSION

The CCAQ, GAC and CVMA recognize the importance of the transition to Zero-Emission vehicles and the reduction of GHG emissions. However, the implementation of an arbitrary ZEV standard in the heavy-duty trucking sector poses high risks to Québec's competitiveness, innovation and economic vitality. Harmonization with other North American jurisdictions is a key issue to avoid harmful regulatory isolation, preserve Québec's performance on continental markets, and ensure a framework conducive to investment.

By encouraging a consistent approach with, a progressive phasing of obligations that are aligned with consumer adoption, adequate financial support and ongoing dialogue with the industry, the Government of Québec will ensure that it achieves its environmental objectives without compromising the strength of our heavy-duty transportation industry. The CCAQ, GAC and CVMA are committed to working closely with the government and stakeholders to implement realistic, balanced and effective solutions.

Submitted by CCAQ, GAC, & CVMA

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