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Tax Alert – Canada

Canada imposes surtaxes on imports of Chinese EVs, steel and aluminum products, and considers surtaxes on critical manufacturing goods

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

On 26 August 2024, the Department of Finance (Finance) announced that effective 1 October 2024, the Government of Canada intends to implement a 100% surtax on all Chinese-made electric vehicles (EVs). In addition, the federal government intends to apply a 25% surtax on imports of steel and aluminum products from China effective 15 October 2024. As part of the same announcement, Finance indicated that a consultation would be launched with respect to other key sectors in the near term.¹

On 10 September 2024, Finance announced a 30-day consultation period, from 10 September 2024 to 10 October 2024, on potential surtaxes in response to Chinese trade practices in critical manufacturing sectors related to EV production.

Background

The federal government held a 30-day consultation period from 2 July 2024 to 1 August 2024 on potential policy responses to protect Canadian automotive industry workers and the growing EV industry from accelerating imports of EVs from China. The consultation also focused on key production inputs such as critical minerals, steel and aluminum.²

¹ [Canada implementing measures to protect Canadian workers and key economic sectors from unfair Chinese trade practices - Canada.ca](#)

² [Consultations on potential policy responses to unfair Chinese trade practices in electric vehicles - Canada.ca](#)

The consultation considered potential policy responses, including:

- ▶ A surtax under Section 53 of the *Customs Tariff*;
- ▶ Exclusion of zero-emission vehicles made in China from eligibility under the Incentives for Zero-Emission Vehicle and the Incentives for Medium- and Heavy-Duty Zero-Emission Vehicle programs; and
- ▶ Further policy guidance, monitoring or restrictions related to transactions and investment from Chinese sources in the Canadian EV supply chain.

The federal government's decision to pursue the imposition of surtaxes, as announced on 26 August 2024, is based on the input received from interested stakeholders during the consultation period.

Surtax on EVs

The 100% surtax on all Chinese-made EVs will apply to electric and certain hybrid passenger automobiles, trucks, buses and delivery vans. The surtax will apply in addition to the 6.1% Most-Favoured Nation import tariff that is already levied on Chinese-origin EVs.³

Surtaxes on steel and aluminum

The federal government has released an initial list of goods that would be subject to a 25% surtax on steel and aluminum products from China.⁴ A final list will be announced by 1 October 2024.

The surtaxes will not apply to subject goods that are in transit to Canada on the day on which these surtaxes come into force.

For the purposes of applying the surtaxes, goods originating from China will be considered goods eligible to be marked as a good of China in accordance with the *Determination of Country of Origin for the Purpose of Marking Goods (Non-CUSMA Countries) Regulations*.⁵

The federal government intends to review these measures within one year from their entry into force, and they may be extended and supplemented by additional measures.

³ For a full list of the subject goods, see [Surtax on Chinese-made Electric Vehicles - Canada.ca](#).

⁴ For a full list of the initial subject goods, see [Surtax on imports of steel and aluminum products from China - Canada.ca](#).

⁵ [Notice of intent to impose surtaxes on Chinese steel and aluminum in response to unfair Chinese trade practices - Canada.ca](#)

Latest consultation

In the consultation launched on 10 September 2024, the Government of Canada is seeking views on the potential application of a surtax on batteries and battery parts, solar products, semiconductors and critical mineral products. The consultation also considers the timing of the coming into force of any potential measures.⁶

If surtaxes are applied following the consultation period, the federal government intends to review their application within a period of one year from the implementation and may decide to further extend the application period or impose additional measures.

A proposed list of goods under consideration for surtaxes is available in Annex 1 of the consultation notice. The surtaxes would be imposed under Section 53 of the *Customs Tariff*, which provides for the application of trade measures to respond to acts, policies or practices of other countries that adversely affect Canada's trade interests.

The consultation period ends on 10 October 2024. Input received from stakeholders will be considered, and the government will then decide which potential policy responses should be adopted.

Next steps

Businesses in the automotive, steel, aluminum, metal stamping, export manufacturing, oil and gas, and construction sectors that source Chinese-origin products will no doubt be significantly impacted by the announced surtaxes.

Furthermore, it is important to note that the federal government is considering further actions. For example, the federal government intends to limit eligibility for the Incentives for Zero-Emission Vehicles, the Incentives for Medium- and Heavy-Duty Zero-Emission Vehicles, and the Zero Emission Vehicle Infrastructure Program to products made in countries that have negotiated free trade agreements with Canada.

It will be critical for stakeholders to closely monitor government actions in the coming weeks and months. Businesses affected by the surtaxes should review their supply chains and determine whether alternative sourcing options exist.

For export-oriented businesses, the Duties Relief Program (DRP) and the Duty Drawback Program (DDP) should remain available to importers for surtaxes paid or otherwise owing by Canadian businesses that meet the requirements of the programs.

⁶ [Consultations on potential surtaxes in response to unfair Chinese trade practices in critical manufacturing sectors - Canada.ca](https://www.canada.ca/en/consultations/html-eng/2024/09/consultations-on-potential-surtaxes-in-response-to-unfair-chinese-trade-practices-in-critical-manufacturing-sectors.html).

Broadly speaking, the DRP provides for relief of the surtaxes, at time of importation, if one of the following conditions is met:

- ▶ The goods are exported in the same condition as imported;
- ▶ The goods are imported for further processing and exported;
- ▶ The goods are displayed or demonstrated in Canada; or
- ▶ The goods are used in the production or development of goods for export.

Importers must apply in advance to the Canada Border Services Agency, demonstrating that their recordkeeping is satisfactory to support a request for duty relief and that the subject goods qualify for the program.

The DDP provides a *refund* of the surtax imposed under the orders for goods that are:

- ▶ Exported in the same condition as imported;
- ▶ Further processed then exported;
- ▶ Used for display or demonstration; or
- ▶ Used as inputs to produce other goods for export.

To obtain a refund, qualifying importers must complete the appropriate claim form and attach all necessary documentation to substantiate the import, export and processing (if applicable).

Learn more

For more information, please contact one of the following EY Global Trade professionals:

Sylvain Golsse

+1 416 932 5165 | sylvain.golsse@ca.ey.com

Kristian Kot

+1 250 294 8384 | kristian.kot@ca.ey.com

Joanna Liang

+1 416 943 5512 | joanna.liang1@ca.ey.com

Traci Tohn

+1 514 879 2698 | traci.tohn@ca.ey.com

Denis Chrissikos

+1 514 879 8153 | denis.chrissikos@ca.ey.com

Jocelyn Mao

+1 416 943 2212 | jocelyn.mao@ca.ey.com

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