

Federal Government Rolls Out Ambitious New Zero-Emissions Vehicle Regulations



Company vehicle fleets would have to be 100% electric or hybrid by 2035.

On December 21, 2022, the federal government proposed ambitious new regulations to promote the sales of electric and other zero-emissions vehicles (ZEVs). Under the regulations, at least 20% of all new vehicles sold in Canada would have to be zero emission by 2026. That percentage would rise to 60% by 2030 and 100% by 2035. Here's a quick briefing of the new ZEV regulations and their potential impact on businesses.

The ZEV Regulations

The ZEV Regulations are an element in the federal government's broad strategy to keep its commitment to achieve net-zero emissions by 2050. They apply to light-duty vehicles manufactured in or imported into Canada for the purpose of sale to the first retail purchaser, including businesses. Starting in 2026, a company's 'combined fleet' of such vehicles would have to meet a 'minimum ZEV requirement.' In other words, a certain percentage of its combined fleet would have to be ZEVs.

The regulations define a zero-emission vehicle as 'an automobile that is an electric vehicle, a plug-in hybrid electric vehicle or a fuel cell vehicle.' 'Automobile' is defined broadly as 'any four-wheeled self-propelled vehicle that is designed for use on highways and that has a GVWR of less than 4,536 kg (10,000 pounds)"although exceptions apply.

The minimum ZEV requirement is based on the model year of the particular vehicle and would increase each year. By 2035, the combined fleet would have to be made up entirely of ZEVs. Here's the proposed timetable:

Proposed Minimum ZEV Requirements

Model Year	Minimum ZEV Requirement (%)
2026	20
2027	23

Model Year	Minimum ZEV Requirement (%)
2028	34
2029	43
2030	60
2031	74
2032	83
2033	94
2034	97
2035 and every year after that	100

Under the proposed ZEV Regulations, companies that exceed their ZEV minimum for the year will earn ‘compliance units’ that they can either bank to ensure compliance for future years or transfer to another company for compensation. Companies can also do a combination of banking and transfers. However, companies that miss their ZEV minimum will incur a deficit that they must pay off using compliance units banked from previous years or units that it receives in a transfer from another company. A company may also generate compliance units it can use to pay off deficits by contributing to designated ZEV activities.

Next Steps

The ZEV Regulations are just proposed. The federal government has launched a formal 75-day consultation period for the regulations that began on December 31, 2022. Once the consultation period ends, Environment and Climate Change Canada will consider the feedback and finalize the regulations.

Based on data from the first 6 months of 2022, sales of fully electric and plug-in hybrid vehicles make up just 7.2% of new car registrations in Canada. The percentages are highest in the two provinces that have adopted their own ZEV mandates, including BC, where nearly 15% of all new vehicle sales were electric vehicles, and Qu bec where electric vehicles accounted for 11.4% of registrations during the period.