Canada’s new automotive strategy

February 06, 2026

On February 5, 2026, the Government of Canada announced its automotive strategy designed to secure domestic manufacturing, accelerate electrification, and strengthen Canada’s role in the North American and global auto supply chain. This announcement carries significant implications for OEMs, suppliers, battery manufacturers, investors, and those developing connected and autonomous technologies in Canada.

1. Significant federal investment to attract EV and advanced manufacturing projects

Canada will deploy up to $3B from the Strategic Response Fund and $100M from the Regional Tariff Response Initiative to support automotive manufacturing, including electric vehicle (EV) assembly, battery technology, automation, and advanced parts production. Investments are intended to benefit Canadian supplies and Canadian-made goods and services.

Manufacturers will also benefit from expanded incentives designed to permit greater write-offs for the cost of investments, tax credits to reduce the cost of machinery and equipment used to manufacture or process clean technologies (such as EV and battery manufacturing), tax incentives and funding to support critical mining and production, and additional investments into artificial intelligence.

2. EV adoption and emissions policy shift

The federal government intends to repeal the Electric Vehicle Availability Standard and introduce more flexible, technology-neutral greenhouse gas standards for model years 2027–2032. These standards target 75 per cent EV adoption by 2035, with an aspirational goal of 90 per cent by 2040.

The shift away from the government’s prior target of 100 per cent zero-emission vehicle sales by 2035 represents a significant reduction in the regulatory burden on Canadian manufacturers, although the revised standards will continue to encourage higher EV production volumes.

3. New five-year EV affordability program

Beginning as early as February 16, 2026, incentives of up to $5,000 for EVs and $2,500 for PHEVs will be available for vehicles up to $50,000, with Canadian-built EVs being exempt from the cap (to give domestic manufacturers a competitive edge). The incentives will be limited to vehicles manufactured in Canada or imported from countries where Canada has a free trade agreement. Given the current limitations of the incentives, and their potential impact on non-US trading partners, further discussion regarding the incentive scheme is likely.

4. National charging infrastructure strategy

With a $1.5B investment, the government aims to develop reliable charging infrastructure in Canada to increase confidence for potential EV buyers. The government's strategy focuses on attracting private equity, reducing barriers, making buildings EV-ready, and skills training.

5. Trade measures strengthening Canadian production

Canada will consult on a redesigned automotive duty remission framework, including a proposed tradeable import credit system rewarding companies that maintain or expand Canadian production. Public consultations are to occur, focusing on how to best reinforce domestic production, attract new investments, and enhance the long-term competitiveness of Canada's automotive sector.

Counter-tariffs on non-CUSMA-compliant U.S. vehicles remain in effect until trade alignment is restored.

6. Workforce stability and skills development

A new Workforce Alliance on Advanced Manufacturing, enhanced Work-Sharing supports, and expanded EI flexibilities will help auto employers retain and upskill workers through the industry transition.

What this means for the Canadian automotive sector

The Canadian government is keenly interested in diversifying its strategic partners, and positioning the Canadian automotive sector for an electric future. This announcement marks a shift from the government's more aggressive supply side targets for EV sales, and aims at a more gradual introduction of EVs alongside demand side incentives to increase adoption amongst consumers.

Meanwhile, Canada is gearing up to increase investment in automotive manufacturing and the mining and production of critical ingredients needed for EVs.

The steps still to be taken to support the long-term competitiveness of Canada's automotive sector will be worth monitoring as Canada, Mexico, and the United States get closer to the scheduled review of the Canada-United States-Mexico Agreement (CUSMA).

Public consultations with the government are to occur, considering issues such as rewards for the use of Canadian content in Canadian-made vehicles, how to encourage investment for technologies such as electrified and advanced vehicle production, and producing electrified vehicles. OEMs in Canada will likely want to consider engagement in this consultation process.

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