COMMENTS BY THE GOVERNMENT OF CANADA TO THE U.S. DEPARTMENT OF TREASURY AND THE INTERNAL REVENUE SERVICE

REQUEST FOR COMMENTS ON PREVAILING WAGE, APPRENTICESHIP, DOMESTIC CONTENT, AND ENERGY COMMUNITIES REQUIREMENTS UNDER THE ACT COMMONLY KNOWN AS THE INFLATION REDUCTION ACT - NOTICE 2022-51

Submitted by:
The Government of Canada
November 4, 2022

The Government of Canada welcomes the opportunity to respond to the U.S. Department of Treasury (Treasury Department) and the Internal Revenue Service (IRS) request for comments on domestic content requirements for bonus credit under sections 45, 48, 45Y, and 48E of the Internal Revenue Code, as amended and added by §§ 13101(g), 13102(l), 13701(a), and 13702(a) respectively, of the Inflation Reduction Act of 2022 (IRA).

Canada is a longstanding and dependable partner for the United States, as evidenced by our uniquely integrated supply chains. The majority of U.S. imports from Canada are intermediate goods that feed U.S. manufacturing and fuel millions of U.S. jobs. In fact, many of these imports begin as U.S. goods and are further processed in Canada before being exported to the U.S. Simply put, we make things together. Our highly integrated production relationship and supply chains, developed over decades, are not just about geographic convenience – they are essential to our joint economic and security goals.

The Canada-U.S. partnership extends to our common fight against climate change, which is at once the largest long-term threat of our generation and also a source of great potential economic opportunity. Canada is an essential partner in achieving our collective North American environmental goals, especially considering our joint production base of electricity generation products and our shared power grid. Canada is taking bold and immediate action to reduce greenhouse gas emissions to fight climate change. Building on decades of cooperation and the pursuit of shared objectives, Canada and the U.S. should work together, not apart, to tackle the challenges of decarbonizing the energy sector.

In relation to the questions under <u>.03 Domestic Content Requirement</u> in Section 3 of Notice 2022-51, Canada submits that bonus credits for energy generation conditional on meeting domestic content requirements are discriminatory against Canadian producers and suppliers of steel, iron and manufactured products. These credits are also prohibited import-substitution subsidies under the WTO *Agreement on Subsidies and Countervailing Measures*. Furthermore, Canada notes that similar U.S. domestic content requirements in government procurement ("Buy America") applied against Canadian suppliers and goods already negatively impact U.S. jobs and companies that rely on cross-border supply chains. The application of such requirements for bonus credits pursuant to the IRA would extend their impact to projects beyond the scope of government procurement. These bonus credits are inconsistent with the United States' international trade obligations and could negatively affect jobs on both sides of the border given our strategic economic relationship and the high degree of economic integration across our supply chains for steel, iron and manufactured goods.

The Government of Canada looks forward to working with the Treasury Department and the IRS to achieve the objectives of combatting climate change while stimulating economic growth in the energy sector. We can do so while avoiding unintended economic harm by taking the unique nature of U.S.-Canada supply chains into account, as is common in other areas of U.S. policy.