Korean Investment in Canada: The Gateway to the U.S. EV Market

June 6, 2023

Investing in Canada: A Strategic Move for Korean Companies

Recent developments in international agreements and U.S. legislation present unique opportunities for Korean companies investing in Canada's clean energy sector. The Memorandum of Understanding (MOU) between Canada and Korea announced in May 2023 has laid a firm foundation for Korean companies to establish secure and resilient supply chains in the critical minerals sector, which is central to clean energy technologies, including electric vehicles (EVs).

Investing in Canada not only provides Korean companies with access to rich mineral resources but also allows them to navigate within a country known for its robust legal frameworks, political stability, and transparent business practices. Moreover, it places them at a vantage point to leverage the provisions of the U.S. Inflation Reduction Act (IRA) and the United States-Mexico-Canada Agreement (USMCA).

Accessing the U.S. Market through USMCA

The USMCA, a trilateral agreement between the United States, Mexico, and Canada, provides a seamless pathway for goods produced in Canada to enter the U.S. market. Through the implementation of USMCA, Korean companies investing in Canada can tap into the U.S. market, the world's second-largest for EVs, without facing prohibitive trade barriers. This strategic positioning opens the gateway to a burgeoning EV market with

the potential for exponential growth.

Capitalizing on the U.S. Inflation Reduction Act

The IRA is another substantial development favoring Korean companies in Canada. The act extends the EV tax credit of $7,500 through 2032 for eligible consumers, offering a major incentive for EV adoption. However, a critical aspect of this act revolves around the specifications for availing of the credit.

Half of this credit—$3,750—is tied to vehicles with batteries manufactured or assembled in North America. By investing in battery manufacturing facilities in Canada, Korean companies can fulfill this stipulation and ensure that the EVs they contribute to will be eligible for this attractive tax credit.

Further, the IRA demands an increase in the percentage of the value of components over time, starting with 50% in 2023 to 100% by 2029. Investing in Canadian manufacturing allows Korean companies to meet these increasing requirements, thereby ensuring their continuous eligibility for the tax credit.

Riding the Wave of Clean Energy Transition

The clean energy transition, strengthened by the Canada-Korea MOU and the U.S. Inflation Reduction Act, presents a golden opportunity for Korean companies. By investing in Canada, they can participate in a growing market, align their operations with the shift towards sustainability, and gain a strategic advantage in the expanding North American EV market.

Crafting a Sustainable Supply Chain

One of the significant benefits that the Canada-Korea MOU offers Korean companies is its emphasis on cooperation across critical mineral supply chains. Canada, blessed with an abundance of critical minerals essential for EV batteries,

becomes an attractive destination for Korean battery manufacturers and suppliers.

By setting up operations in Canada, Korean companies can secure a resilient supply chain that ensures a steady flow of these critical minerals. It not only aids in streamlining their operations but also contributes to sustainability goals by minimizing the environmental footprint associated with long-distance transportation of raw materials.

Driving Innovation through Cooperation

The MOU outlines areas of cooperation between Canada and Korea in trade, investment, and information exchange related to critical mineral processing and recycling. This means that Korean companies can gain access to innovative Canadian technologies and research in these areas, fostering a climate of mutual growth and learning.

Collaborative ventures could spur the development of new, more efficient battery technologies, recycling methods, and advanced manufacturing practices. This shared knowledge can enhance competitiveness and accelerate the transition to cleaner energy sources.

Making the Most of the North American Free Trade Zone

The comprehensive provisions of USMCA make it a linchpin in the expansion strategy of Korean companies. USMCA has effectively created a massive free-trade zone in North America, opening new avenues for Korean businesses to enhance their market reach.

By setting up manufacturing facilities in Canada, Korean companies can benefit from the USMCA provisions, ensuring seamless access to the American and Mexican markets. The geographical proximity to these markets could result in lower logistics costs and quicker response times, ultimately bolstering their competitiveness.

Encouraging EV Adoption through Financial Incentives

The IRA provisions offer substantial financial incentives for EV buyers, thereby encouraging widespread EV adoption. By manufacturing batteries in Canada, Korean companies can ensure their products qualify for these tax credits, making them more affordable and appealing to consumers.

Furthermore, the IRA's emphasis on locally sourced and manufactured components is set to spur demand for North American-made batteries. Korean companies with manufacturing units in Canada stand to gain immensely from this growing demand.

Conclusion: A Future-Proof Investment Strategy

By investing in Canada, Korean companies can strategically position themselves to benefit from the lucrative North American EV market, bolstered by supportive legislative frameworks and international agreements. In the grand scheme, it's not merely an investment in a country; it's an investment in a sustainable and prosperous future in the global clean energy sector. By harnessing these opportunities, Korean companies are poised to become leading players in the worldwide EV revolution, proving that smart, strategic investments can drive both economic growth and environmental sustainability.

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