Subsidy Advice Unit Report on the Automotive Transformation Grants scheme

Referred by the Department for Business and Trade

24 June 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

1. The Referral

1.1 On 7 May 2025, the Department for Business and Trade (DBT) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the proposed Automotive Transformation Grants scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates DBT's assessment of compliance (the Assessment) of the Scheme with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to DBT. It does not consider whether the Scheme should be implemented, or directly assess whether it complies with the subsidy control requirements.

Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the Statutory Guidance) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the SAU Guidance).

1.5 In our view, DBT has considered in detail the compliance of the Scheme with the subsidy control principles. In particular, the Assessment clearly articulates the Scheme's policy objective, which it helpfully links to wider strategic objectives.

1.6 However, we have identified the following areas for improvement:

(a) The Assessment should more clearly explain the importance of the identified market failure (imperfect information resulting in a coordination failure) in driving the policy objective of the Scheme (Principle A).

(b) In relation to the equity rationale, the Assessment should explain and evidence how the Scheme will deliver investments in disadvantaged areas in order to achieve a policy objective of the Scheme (Principle A).

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[1] The SAU is part of the Competition and Markets Authority
[2] Referral of the proposed Automotive Transformation Grants scheme by the Department for Business and Trade - GOV.UK
[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy creates a number of requirements with which public authorities must comply.

(c) The Assessment should systematically set out what alternatives to subsidy were considered, how each alternative was evaluated against the policy objective, and then explain why each option was rejected (Principle E).

(d) The Assessment should provide further evidence and explanation on the monitoring and evaluation arrangements which will be in place for individual subsidies (Principle B).

(e) The Assessment should further explain and provide detail of how impacts on competition and investment in the UK will be assessed within the subsidy award process, and explain what weight may be placed on these impacts in taking decisions to award specific subsidies (Principle F).

(f) The Assessment should identify the main product markets in the ZEV supply chain, which are most likely to be impacted by the Scheme, and should conduct its competition assessment at the enterprise (ie business) level, within clearly defined geographic and product markets (Principle F).

(g) The balancing exercise should consider and set out any expected negative effects of the Scheme, including potential effects on competition and investment within the UK, and on international trade and investment. The Assessment should ensure that only those benefits that relate to the specific policy objective are taken into account for the purposes of the balancing exercise (Principle G).

1.7 We discuss these areas below, along with other issues, for consideration by DBT in finalising its assessment.

The referred scheme

1.8 The Scheme will provide £1.54 billion to support the UK automotive sector's transition away from internal combustion engine (ICE) vehicle production, towards zero emission vehicle (ZEV) production. UK Government policy is expected to require only ZEVs to be sold by 2035, necessitating this transition.

1.9 The Scheme will be a part of a new automotive sector funding offer, alongside the National Wealth Fund and other automotive schemes including the proposed Automotive Innovation Grants scheme.[4] The Scheme aims to increase investment into the UK, secure jobs, deliver emission reductions, support innovation, help meet electric vehicle (EV) battery manufacturing capacity demands, and increase supply chain resilience. This Scheme follows on from the previous Automotive Transformation Fund, but with an expanded remit and technology scope.

[4] Referral of the proposed Automotive Innovation Grants scheme by UK Research and Innovation - GOV.UK

1.10 The Scheme will provide capital grants of between £1 million and £100 million, with an intervention rate of up to 25% for each individual subsidy. The Scheme will run from 2025 to 2030.

1.11 Project proposals must focus on large-scale, transformative, zero-emission focused capital investment for the automotive industry. Proposals are expected to be centred around a proven product or process that has been demonstrated as economically and technically feasible.

1.12 Eligible costs include, but are not limited to, capital costs such as construction of buildings, infrastructure, and acquisition of land. The technology scope will comprise the following, non-exhaustive, list of key areas: vehicle assembly, batteries, electric motors and drives, power electronics, hydrogen fuel cells, and upstream supply chain.

1.13 Applicants can be businesses of any size and either single applicants or collaborations. They must undertake project work in the UK and exploit the results/benefits from or within the UK. DBT have explained that while any UK businesses may apply, this Scheme will only cover subsidies for enterprises in Great Britain and that support to enterprises in Northern Ireland will be subject to EU State Aid rules under Article 10 of the Windsor Framework.

1.14 DBT explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.[5] In particular, DBT have stated that the Scheme will allow for subsidies greater than £5 million to be given to manufacturers of motor vehicles (classed as a sensitive sector).[6]

[5] Within the meaning of regulation 3 of The Subsidy Control (Subsidies and Schemes of Interest or Particular Interest) Regulations 2022 which sets out the conditions under which a subsidy or scheme is considered to be of particular interest.
[6] As listed in the Schedule to The Subsidy Control (Subsidies and Schemes of Interest or Particular Interest) Regulations 2022.

2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DBT.

Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[7]

Policy objective

2.3 The Assessment states that the policy objective of the Scheme is to support the UK automotive sector's transition away from ICE vehicle production and towards ZEV production. It sets out that this will be achieved by enabling industrial deployment through capital investment across the ZEV supply chain and upgrading or establishing plants to secure ZEV allocations.

2.4 The Assessment explains that the policy objective is driven by several broader Government objectives, including the intent to:

(a) substantially increase inward investment into the UK, and unlock private investment;

(b) secure jobs in the UK automotive sector;

(c) anchor new innovation to the UK, support new manufacturing opportunities and industrialise innovative solutions in the automotive market;

(d) help meet battery manufacturing capacity demand by 2035, enabling the UK automotive industry to be globally competitive;

[7] See Statutory Guidance, paragraphs 3.33–3.58 and the SAU Guidance, paragraphs 4.7–4.11 for further detail.

(e) increase the UK's supply chain resilience, reducing dependency on global supply chains; and

(f) deliver significant emissions reductions in the UK and globally.

2.5 The Assessment also notes that through securing jobs (see paragraph 2.4(b)), it will mitigate an equity concern that would otherwise arise, to preserve automotive employment in traditional areas of automotive manufacturing in the UK, which tend to be relatively disadvantaged (see paragraphs 2.16 to 2.17).

2.6 In our view, the Assessment clearly describes the policy objective of the Scheme and helpfully explains the broader strategic objectives which underpin it.

Market failure

2.7 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.[8]

2.8 The Assessment sets out that the Scheme addresses a market failure of imperfect information which results in a coordination failure between commercial lenders and manufacturers across the ZEV supply chain.

2.9 The Assessment states that transforming traditional ICE vehicle-based chains into ZEV supply chains requires substantial investments and new suppliers. It sets out that ZEV supply chains involve multiple companies, including vehicle manufacturers, producers of EV batteries and other ZEV-specific parts. The Assessment explains that risks of investments resulting from the capital-intensive nature of the sector and lengthy return on investments, mean that these components of the supply chain all need to be in place for individual projects to go ahead. It notes that commercial finance decisions for companies and lenders often require committed revenue streams to be in place to de-risk specific investments.

2.10 The Assessment highlights that volatile demand for ZEVs, combined with the time taken for demand signals to proliferate through the supply chain, means companies often cannot find committed upstream suppliers or downstream customers. This increases the risks of investment, making companies and commercial lenders reluctant to invest in individual projects across the chain. The Assessment explains that this represents a coordination failure because individual actors do not consider the benefits of a wider ZEV supply chain when deciding on investments, and the market is unable to reduce the risk itself by coordinating such investments across the supply chain.

[8] Statutory Guidance, paragraphs 3.36–3.50.

2.11 The Assessment explains that intervention is therefore required to de-risk individual projects within the ZEV supply chain. It notes that the Scheme will inject a pool of public investment into the industry, explaining that a broad approach is necessary to send a strong signal to spur a critical mass of investment required to encourage industrial deployment and private investment. The Assessment draws on internal analysis to quantify the anticipated private investment the Scheme will leverage.

2.12 In our view, the Assessment clearly describes the market failure that the Scheme seeks to remedy. However, it should more clearly explain the importance of the market failure in driving the policy objective of the Scheme, for example by providing more evidence that it is coordination failure, rather than other factors, which holds back ZEV investment in the UK.

Equity Objective

2.13 Equity objectives seek to reduce unequal or unfair outcomes between different groups in society or geographic areas.[9]

2.14 The Assessment states that the production of ICE vehicles in the UK will effectively cease as a result of ZEV mandates in the UK and EU[10] that will only allow the sale of ZEVs from 2035. The Assessment explains that without sufficient investment in creating the supply chain necessary for ZEV production (especially EV battery production), there is the risk that automotive production will move to countries with more fully developed ZEV supply chains.

2.15 The Assessment draws on internal modelling to suggest this could damage the UK automotive industry. It explains that this could create lasting, damaging effects on the earning potential of workers, with knock-on social and health impacts on communities more widely.[11]

2.16 The Assessment states that this potential loss of direct and indirect employment raises an equity concern because automotive employment tends to be situated in more deprived areas of the UK, with 87% of direct automotive jobs situated outside London and the South East, while 40% of them are in the most deprived quartile of travel-to-work areas.[12] The Assessment provides evidence that the average wage for automotive manufacturing is higher than the average local wage in the same areas. It explains that the sector therefore provides direct economic

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[9] Statutory Guidance, paragraphs 3.51–3.55.
[10] The 2035 ZEV mandate in the EU, alongside the UK, is relevant given the high proportion of UK auto exports destined for the EU market.
[11] The assessment draws on data from Public Health Wales, showing increased risk of chronic ill-health, poor mental health and excess mortality following on from mass unemployment events.
[12] Comparing automotive sector employment to the Index of Multiple Deprivation.

benefits to these less well-off regions by providing high paying, skilled employment.

2.17 The Assessment explains that the Scheme will help to mitigate this equity concern, directly supporting disadvantaged regions of the UK by transitioning the ICE vehicle supply chain to ZEV production, boosting productivity and securing high paying jobs in these regions. Specifically, the Assessment mentions a possible focus on two regional 'clusters'– regions where average wages are well below the UK average. However, DBT clarified that there is no specific 'cluster' approach to this Scheme, as it will be available UK-wide.

2.18 We note that while the Assessment describes an equity objective, the broader strategic objectives outlined in paragraph 2.4 refer to securing jobs generally, without discussion of objectives relating to inequities. In addition, the Assessment does not set out specific design features of the Scheme that would ensure investment is targeted at relatively disadvantaged areas: there appears to be an assumption that investments will be made in areas where ICE vehicle production currently exists, but there is no indication that the Scheme's design leads to investments necessarily being made in these specific areas, or that they should be targeted to relatively disadvantaged areas. In our view, the Assessment should explain and evidence how the Scheme will deliver investments in disadvantaged areas in order to achieve a policy objective of the Scheme. This could include explaining in more detail how location of investment will be considered in the selection of beneficiaries, and/or whether there will be any conditions regarding future location of activities.

Appropriateness

2.19 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[13]

2.20 The Assessment addresses this principle through three themes: effectiveness, timing, and alternative interventions.

2.21 In discussing effectiveness, the Assessment argues that grant funding is most effective and appropriate in closing the competitiveness gap as it does not incur a cost or have any repayment conditions, unlike loans, equity funding or guarantees.[14] It states that loan funding will not address international competitiveness, although does not explain why this is the case. It sets out arguments as to why grant funding is most effective, including comparing it to non-

[13] Statutory Guidance, paragraphs 3.56–3.58.
[14] However, the Assessment later states that loans may sometimes be offered under the Scheme where these are considered more appropriate.

financial interventions such as regulatory or tax regime changes; it states that these would be more complex and would not generate the same incentives as grant funding would.

2.22 The Assessment then turns to timing, stating that intervention is required swiftly to meet evolving investment timelines, and that non-financial interventions would take longer to implement. It argues that choosing these alternatives would result in missed opportunities due to the pace of the worldwide transition to ZEVs.

2.23 The Assessment notes that there are other existing interventions such as the ZEV mandate, the British Industry Supercharger for Energy Intensive Industries and fiscal initiatives such as full expensing of capital equipment, but considers these are insufficient to address the policy objectives on their own.

2.24 The Assessment sets out why it considers grant funding appropriate to achieve the policy objective, and briefly considers some alternative policy instruments; however, in our view, it should systematically set out what alternative means were considered, how each of those were evaluated against the policy objective, and then explain why each option was rejected.

Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.25 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[15]

Counterfactual

2.26 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the ‘do nothing’ scenario).[16]

2.27 The Assessment sets out a counterfactual scenario, based on DBT modelling, that without the Scheme, there would be an under-investment in ZEV supply chains, particularly in the production of EV batteries.

[15] See Statutory Guidance, paragraphs 3.59–3.73 and the SAU Guidance, paragraphs 4.12–4.14 for further detail.
[16] Statutory Guidance, paragraphs 3.62–3.64.

2.28 It explains that ZEV production relies on EV battery production, with battery manufacturing and ZEV production plants often situated close together to create integrated supply chains. In this 'do nothing' scenario, the annual production capacity in 2035 for EV batteries is projected and compared to what is expected with the Scheme in place. It argues that the lack of EV battery production then constrains ZEV production as EV batteries are difficult to import, noting that rules of origin regulations from 2027 will restrict the ability of the UK to produce ZEVs using imported EV batteries. Consequently, it forecasts vehicle production in the counterfactual scenario and sets out an estimate of the change in the number of direct automotive sector jobs that would be realised by 2035 as a result.

2.29 While not explicitly addressed in its counterfactual analysis, the Assessment elsewhere sets out that absent the Scheme, the UK would be reliant on imports of ZEVs. It does not present any evidence or argument that ZEV utilisation in the UK would be impacted.

2.30 In our view, the Assessment clearly describes what would be likely to happen if the Scheme was not implemented. However, including more detailed evidence supporting this analysis - for example DBT's modelling of the 'do nothing' scenario - could be helpful, as would setting out how potential Scheme beneficiaries would behave in the counterfactual.

Changes in economic behaviour of the beneficiary and additionality

2.31 Subsidies must bring about something that would not have occurred without the subsidy.[17] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').[18] For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.[19]

2.32 The Assessment explains that the Scheme will bring about the required behavioural change by de-risking investment for commercial lenders and ZEV supply chain companies into individual ZEV manufacturing investments, across the entire ZEV supply chain. This will allow beneficiaries to overcome the lack of investment that would prevent their projects going ahead in the UK, and as a result, completion of the projects will contribute to the policy objective.

2.33 The Assessment further explains that additionality is assessed during the application process to ensure the project would not have gone ahead without

[17] Statutory Guidance, paragraph 3.66.
[18] Statutory Guidance, paragraphs 3.65–3.69.
[19] Statutory Guidance, paragraphs 3.70–3.72.

intervention, with applicants providing evidence and explanations of their counterfactual scenario, including financial modelling used to identify the cost gap that is the basis of their grant request. The Assessment then summarises the examination process applied to an application and its supporting evidence to determine additionality (see paragraph 2.37(d)).

2.34 The Assessment states that the additionality of the Scheme will be measurable through the monitoring of subsidy awards for each project, the level of private investment that is provided alongside the awards, and the number of jobs secured.

2.35 In our view, the Assessment clearly explains how the Scheme would change the beneficiaries' economic behaviour and that the Scheme brings about changes that would not have occurred absent the subsidy. However, it could have better evidenced how the Scheme's rules will address additionality, given that the Assessment acknowledges that in previous programmes some benefits would have occurred without funding.[20]

Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.36 Under Step 3, public authorities should consider compliance of a subsidy with:

(a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

(b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.[21]

Proportionality

2.37 The Assessment contains a description of features of the Scheme intended to ensure that it is proportionate and the minimum necessary, including:

(a) an absolute cap of £100 million subsidy value per project and relative caps on the subsidy intensity of 25%;

(b) subsidies to be paid in arrears and only after a verification process which requires evidence to be submitted to DBT by beneficiaries and reviewed by an independent monitoring officer, with some payments requiring an independent accountant report;

[20] [✄] Redacted pursuant to section 244 Enterprise Act 2002.
[21] See Statutory Guidance paragraphs 3.74–3.110 and the SAU Guidance, paragraphs 4.15–4.19 for further detail.

(c) an application and awards process which requires beneficiaries to evidence why the subsidy and subsidy value is necessary, in addition to company financials conducted and validated by an internal (DBT) or external process of due diligence. Subsides will be reviewed by an internal DBT board; if over £5 million in value, an expert committee will review and provide advice to Ministers, with final approval coming from DBT ministers and HM Treasury;

(d) an application and awards process which considers multiple or repeat applications from the same beneficiary including previous government awards via different programmes;

(e) a Scheme level monitoring and evaluation process; and

(f) the Scheme is time-limited to 5 years and individual subsidies issued under the Scheme are timebound.

2.38 Additionally, the Assessment provides a sense of relative scale by comparing the Scheme size to the overall value of ZEV production in the UK and the existing UK automotive sector.

2.39 In our view, the Assessment provides useful detail on a number of design features that are relevant to proportionality and to ensuring subsidies are the minimum necessary. However, the Assessment should provide, beyond the application for payments of the grant via arrears, further evidence and explanation on the monitoring and evaluation arrangements which will be in place for individual subsidies. In particular, it could explain what clawback or other mechanisms will be in place if entities do not follow their funding agreements, and how DBT will monitor and prevent the accumulation of subsidies and public funding to entities while they are receiving funding under the Scheme.

2.40 In addition, the Assessment could explain and provide evidence for how the £100 million maximum threshold and the 25% subsidy intensity threshold were determined.

Design of subsidy to minimise negative effects on competition and investment

2.41 The Assessment states that the Scheme has been designed explicitly to minimise any market distortion potential that any individual project may have. In addition to those criteria set out in paragraph 2.37, the Assessment presents several elements of the Scheme's design that are relevant to minimising distortive impacts, including:

(a) the breadth of the beneficiaries, noting:

(i) the subsidies are focused on six key technology areas, which could change during the course of the Scheme;

(ii) the Scheme is on offer to all companies within the UK;

(b) only costs explicitly linked to the development of projects will be covered, not covering business as usual, operational, working capital or contingency costs under the Scheme; and

(c) the appraisal process will investigate any market distortion potential that each project may have, stating higher levels of market disruption will be accounted for in a negative impact on the project's overall benefit to cost ratio.

2.42 The Assessment also briefly discusses the nature of the financial instrument to be used under the Scheme noting that DBT could offer loans and repayable grants instead of grants.

2.43 In our view, the Assessment contains an explanation of various design characteristics which contribute to minimising any negative effects of the Scheme on competition and investment within the United Kingdom. However, the Assessment should further explain and provide detail of how impacts on competition and investment in the UK (see paragraph 2.41(c)) will be assessed within the subsidy award process, and explain what weight may be placed on these impacts in taking decisions to award specific subsidies.

Assessment of effects on competition or investment

2.44 The Assessment notes that the Scheme is open to all firms, including new entrants. It states that it expects a mixture of SMEs and large international firms to apply for the Scheme. It argues that the grant funding can be used to overcome barriers to entry. It acknowledges existing UK manufacturers may benefit from the Scheme, but states it is not possible to assess which companies may gain or lose market share.

2.45 The Assessment provides useful context and information regarding the global automotive manufacturing sector; it explains that the sector is undergoing radical change from manufacturing ICE vehicles to ZEVs, noting that this change requires significant capital investment with intense international/global competition for EV investment and locations to secure market position.

2.46 The Assessment states that the two main markets effected by the Scheme are the ZEV and EV battery markets. Here, it focuses on the distortive impacts of the Scheme on these two markets at both UK and EU, and global levels, detailing the production shares of supply for specific countries/regions. The Assessment also describes government support available in other countries.

2.47 The Assessment states that the Scheme has been explicitly designed to minimise any market distortions within the UK. The Assessment provides information on the relative size of the automotive manufacturing sector in the UK, the percentage of

ZEV vehicles produced in the UK and the number of EV manufacturers currently operating in the UK.

2.48 The Assessment states that 80% of vehicles manufactured in the UK are exported abroad. It argues that global competition limits the potential distortive impacts of subsidy being awarded to UK-based manufacturers, because they will continue to experience competition from foreign firms which also receive large levels of government funding.

2.49 In our view, the Assessment demonstrates some consideration and evidences the effect of the Scheme on competition and investment in the UK, in line with Annex 3 of the Statutory Guidance. However, the Assessment should identify the main product markets in the ZEV supply chain, to the extent it is possible, which are most likely going to be impacted by the Scheme. In particular, the Assessment should provide additional analysis and evidence of the potential impact on ZEV batteries. It should also conduct its competition assessment at the enterprise (business) level, within clearly defined geographic and product markets;[22] the Assessment currently focuses on the competitiveness between countries (ie it discusses competition and potential distortions between countries or regions rather than enterprises).

Step 4: Carrying out the balancing exercise

2.50 Under step 4 (principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[23]

2.51 The Assessment sets out that the Scheme is unlikely to change the current patterns of production between nations and it notes that subsidy schemes are in place in other countries and so any displacement effect would be minimal.

2.52 The Assessment sets out design features of the Scheme to minimise any UK market distortion, and then outlines the arrangements for considering market impacts during the grant application stage, stating that should a project present a significant risk of high market disruption, it would not be supported by the Scheme.

2.53 The Assessment then goes on to describe the benefits of the Scheme:

[22] See Statutory Guidance, Annex 3. For example, in analysing the markets within which the effects on competition and investment in the UK are assessed, the Assessment could consider enterprises' market shares, other measures of competition or market concentration at a global level given that the Assessment suggests that the ZEV market is global.
[23] See Statutory Guidance, paragraphs 3.111–3.119 and the SAU Guidance, paragraphs 4.20–4.22 for further detail.

(a) Economic: the Assessment sets out that economic analysis carried out as part of the full business case indicated that the Scheme would generate a positive net benefit-cost ratio and a favourable net present social value.

(b) Employment: Increased direct employment in the automotive and ZEV equipment (ie EV batteries) sectors and increased indirect employment in the wider supply chains due to the increased production of ZEVs estimated to occur from the grants provided, leading to substantial economic benefits.

(c) Wider benefits, including: spillover effects from R&D activities; indirect environmental benefits from the potential for UK consumers to increase their uptake of domestically produced ZEVs;[24] regional benefits resulting from increased industrial activity outside London and the South East of England; and cross-sectoral (spillover) benefits for other industries (including chemical, aero, renewables and fixed grid technology) through UK-based battery production.

2.54 In our view, the Assessment clearly sets out the positive effects of the Scheme in relation to the policy objectives (paragraphs 2.53(a) and 2.53(b)). However, in line with the Statutory Guidance, the balancing exercise should consider and set out any expected negative effects of the Scheme, including potential effects on competition and investment within the UK, and on international trade and investment, and consider their expected size and their likelihood of occurring when balancing them against the benefits.[25] It should also ensure that only those benefits that relate to the specific policy objective are taken into account for the purposes of the balancing exercise and wider benefits and those that do not relate to a market failure or equity rationale are excluded.[26] Some of the wider benefits outlined in the Assessment (see paragraph 2.53(c)) may not therefore be appropriate to include.

2.55 In considering the likely impacts of the potential negative effects, DBT could consider any provisions in place for mitigating those impacts, and what the residual effects might be.[27]

Other Requirements of the Act

2.56 DBT confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Scheme.

[24] The Assessment sets out that compared to European competitors, the UK has lower carbon in its energy grid, and hence manufacturing in the UK will result in lower global emissions, and that greater availability of domestically produced EVs in the UK could stimulate demand and lower domestic emissions (from vehicles).
[25] See Statutory Guidance, paragraph 3.113-3.115.
[26] See Statutory Guidance, paragraph 3.114.
[27] See Statutory Guidance, paragraph 3.113.

24 June 2025