# Subsidy Advice Unit Report on the proposed Automotive Innovation Grants subsidy scheme

Referred by UK Research and Innovation

25 June 2025

Subsidy Advice Unit

Part of the Competition and Markets Authority

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# 1. The Referral

1.1 On 8 May 2025, UK Research and Innovation (UKRI) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the proposed Automotive Innovation Grants subsidy scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates UKRI'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 UKRI. 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, UKRI has considered in detail certain aspects of the compliance of the Scheme with the subsidy control and energy and environment principles. In particular, the Assessment:

(a) articulates the Scheme's policy objective in the context of its wider strategic objectives, and clearly identifies and describes relevant market failures (Principle A);

(b) helpfully explains how design features of the Scheme contribute to a change in the economic behaviour of the beneficiaries (Principles C and D); and

(c) clearly sets out scheme design features which help minimise distortion (Principle F).

1.6 However, we have identified the following areas for improvement. The Assessment should:

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed Automotive Innovation Grants scheme by UK Research and Innovation - 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.

(a) more clearly explain how not implementing the Scheme would affect the R&D investment decisions of potential beneficiaries and their ability to invest at levels necessary to achieve the policy objective (Principle C);

(b) discuss the alternative funding options that it mentions in more detail and why these were not deemed appropriate to achieve the policy objective (Principle E);

(c) identify the main product categories that are likely to be affected by the Scheme and consider how competition within these different markets could be affected by the Scheme (Principle F);

(d) discuss negative impacts more thoroughly, while also considering a wider range of negative impacts, including potential geographic and distributional impacts, and possible negative impacts on international trade and investment. It should then explicitly weigh the benefits and negative effects against each (Principle G); and

(e) further explain why the Energy and Environment Principles are applicable to the Scheme, considering its specific policy objective, and explain in more detail how the Scheme complies with Principle A of the Energy and Environment Principles (Energy and Environment Principles).

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

## The referred scheme

1.8 UKRI proposes to provide approximately £375 million in grant funding through the Scheme to support research and development (R&D) in the automotive sector, as the UK transitions to zero-emission vehicles (ZEVs). The Scheme will replace the Advanced Propulsion Centre (APC) R&D Programme.

1.9 The Scheme will support UK-registered businesses (including large companies, SMEs and start-ups) that are involved in the development of low carbon and ZEV technologies, as well as universities and research organisations that collaborate with industry partners. Technologies that will be supported by the Scheme include zero-emission (tailpipe) reduction technologies, technologies that decarbonise and improve the efficiency of the ZEV manufacturing process, and technologies relating to future vehicle innovation and software-defined vehicles.

1.10 Applicants will be able to apply individually for funding between £500,000 to £1.5 million per project, or as part of a consortium, for funding for up to £25 million per project. The percentage of total project costs eligible[4] for funding will depend on the size of the beneficiary[5] and the nature of the research that will be undertaken.

(a) In the case of industrial research,[6] large enterprises can receive up to 50% of project costs, while medium-sized enterprises are eligible for up to 60%, and small enterprises up to 70%.

(b) In the case of experimental development,[7] large enterprises can receive up to 25% of project costs, while medium-sized enterprises are eligible for up to 35%, and small enterprises up to 45%.

1.11 UKRI expects to run two competitions per year, where applicants are invited to apply for funding under the Scheme, with a certain number of applications awarded subsidies. The Scheme is expected to begin in July 2025 and end in March 2030.

1.12 Although grants will be available UK-wide, and competitions open to organisations in both Great Britain (GB) and Northern Ireland, this Scheme will only cover subsidies for GB enterprises, while support to enterprises in Northern Ireland will be dealt with in accordance with EU State Aid rules under Article 10 of the Windsor Framework.

1.13 UKRI 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.[8] In particular, UKRI have stated that the Scheme will allow for subsidies of over £5 million to enterprises active in a sensitive sector (the manufacture of motor vehicles).[9]

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[4] Eligible costs include costs that relate to labour, materials, travel and subsistence, capital equipment and subcontracting that relate directly to the R&D project and overheads and other indirect costs that are necessary for the project but not directly attributable to specific activities.
[5] For information on how enterprise size is defined, see Action Plan: Small and Medium Sized Enterprises, page 6.
[6] 'Industrial research' means planned research or critical investigation to gain new knowledge and skills. This should be for the purpose of product development, processes or services that lead to an improvement in existing products, processes or services (Categories of research and development – UKRI).
[7] 'Experimental development' means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services (Categories of research and development – UKRI).
[8] 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.
[9] 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 UKRI.

## 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.[10]

### Policy objectives

2.3 The Assessment states that the policy objective of the Scheme is ‘to support innovative R&D projects in strategic vehicle technologies and their manufacturing, laying the foundations for the supply chains required to secure future vehicle assembly in the UK’.

2.4 The Assessment explains that these projects will help:

(a) support growth, transition and security of the UK’s automotive supply chain, increasing capability, whilst improving productivity, efficiency and competitiveness;

(b) support the UK's strategic goals and objectives, including the HMG's Industrial Strategy and the Automotive Council's Roadmaps and Strategic technology areas;

(c) deliver on-vehicle technologies or enable manufacturing capabilities which support the transition to ZEVs;

(d) target post-project commercialisation with clear articulation on how the innovation will be brought to market or used in an industrial setting;

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

(e) create and safeguard high-value jobs during the project and through post project impact, which create a lasting economic benefit to the UK; and

(f) support securing long-term R&D investment in the UK automotive sector.

2.5 In our view, the Assessment helpfully articulates the Scheme's specific policy objective with the wider strategic objectives that supported projects will help deliver.

**Market failure**

2.6 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.[11]

2.7 The Assessment describes the following market failures which hinder R&D investment in the automotive sector:

(a) Positive externality in the form of knowledge spillovers: Relying on evidence from the APC R&D programme, the Assessment notes that R&D often generates knowledge that benefits other firms and industries, causing firms to underinvest in R&D relative to what is socially optimal if they cannot fully capture the returns on their investment.

(b) Coordination failure: The Assessment explains that effective innovation in the automotive industry requires collaboration among manufacturers, technology companies and research institutions. It states that the level of R&D activity will be suppressed below the optimal levels for the UK economy if potential innovators in the sector are not sufficiently coordinated. It further explains that collaborative R&D in relation to ZEV technologies is constrained both by the industry's nascent stage (requiring new partnerships between unfamiliar stakeholders), and the risk that some partners in projects may 'free ride on the efforts of others.'

2.8 The Assessment also outlines how the Scheme addresses market failures. It explains that the Scheme aims to increase R&D investment in the automotive sector closer to the most efficient level. Recognising that intellectual property rights can have an impact on these market failures, it explains that their impact on the level of knowledge spillovers generated by individual projects will be assessed during the 'value for money' appraisal stage. Regarding coordination failures, the Assessment states that the Scheme will 'ensure the creation of new and effective partnerships which will help the sector flourish'**.**

[11] Statutory Guidance, paragraphs 3.36–3.50.

2.9 In our view, the Assessment provides a credible description of the market failure(s) that the Scheme seeks to remedy. However, the Assessment could better evidence the extent to which these market failures currently inhibit R&D in the UK automotive industry. For instance, it could:

(a) leverage supporting evidence that demonstrates positive externalities from knowledge spillovers observed in previous R&D projects within the sector. It could also further explore the role of IP rights in incentivising R&D investment in the automotive industry and why it is not sufficient to address the market failures identified; and

(b) evidence the factors preventing R&D collaboration such as information asymmetry, the complexity of multi-party arrangements and contractual design challenges, to more clearly demonstrate how coordination problems in the industry create a market failure.

**Appropriateness**

2.10 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.[12]

2.11 The Assessment explains that UKRI has considered the following alternative means to achieve the policy objective: i) regulation; ii) different levels of grant funding, and iii) provision of loans and market-based financing in alternative to grant funding. The Assessment concludes that grant funding is the most suitable funding method to meet the policy objective, as the alternatives are less likely to be successful.

2.12 The Assessment states that regulation alone is unlikely to overcome sectoral market barriers which prevent private investors from using R&D in these technologies.

2.13 The Assessment sets out that while large businesses have access to alternative funding options, such as external debt, in competing for funding they are faced with challenges regarding risk appetite and return on investment. It also states that R&D investment historically is suspended or scaled back during market downturns or periods of uncertainty. It explains that SMEs have fewer funding options due to their lack of revenue or collateral, shortfalls in cash flow, and high levels of risk, all of which are likely to dissuade commercial lenders, as well as making them a higher risk for government-backed loans.

[12] Statutory Guidance, paragraphs 3.56–3.58.

2.14 The Assessment concludes that grants are attractive to companies as automotive R&D investment generally faces fierce competition internationally, and help to mitigate some of the risks associated with R&D expenditure.

2.15 In our view, the Assessment demonstrates that UKRI has considered other ways of achieving its policy objective. However, the Assessment should discuss the alternative financing options that it mentions in more detail, explaining what it considered (for instance, equity funding) and why these alternatives were not deemed appropriate. This could also include consideration of the interaction of the Scheme with other public sources of funding, such as the National Wealth Fund. In addition, while the Assessment provides a detailed explanation of why loans would not work for SMEs, it could also explain why loans would be unsuitable for large companies engaging in R&D projects.

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

2.16 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.[13]

### Counterfactual

2.17 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).[14]

2.18 The Assessment sets out a counterfactual scenario where current subsidy schemes[15] that provide support to the automotive sector will end in 2025 and the Scheme would not be implemented. It states that, without support, key market failures would not be addressed, and the UK's ZEV industry would remain under-developed compared to other economies.

2.19 The Assessment further explains that, in the longer term, without sufficient investment in R&D and innovation, the UK automotive industry would face severe

[13] See Statutory Guidance, paragraphs 3.59–3.73 and the SAU Guidance, paragraphs 4.12–4.14 for further detail.
[14] Statutory Guidance, paragraphs 3.62–3.64.
[15] This includes the APC R&D Programme and the Automotive Transformation Fund (a subsidy scheme providing capital funding to support the industrialisation of ZEV technologies).

consequences including significant challenges in maintaining its market share and a decline in international competitiveness, exacerbated by significant automotive industry support packages introduced in the US, EU, and Asia. It also states that economic resilience would be weakened due to overreliance on foreign suppliers for ZEV technologies, leading to reduced vehicle production and increased job losses.

2.20 In our view, while the Assessment discusses the potential adverse impact on the sector of not implementing the Scheme, it should more clearly explain how the absence of the Scheme will affect the R&D investment decisions of potential beneficiaries, and their ability to invest at levels necessary to achieve the policy objective. This could be evidenced with details on the likely extent of reduced investment in R&D and/or projects happening on a slower timescale or happening abroad, with regard to a sample of potential beneficiaries.

**Changes in economic behaviour of the beneficiary and additionality**

2.21 Subsidies must bring about something that would not have occurred without the subsidy.[16] 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').[17] 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.[18]

2.22 The Assessment explains that the Scheme is expected to bring about 'a change in the behaviour of each and every potential beneficiary', [✂][19]. The Assessment also outlines that the Scheme will not fund 'business as usual' activities and only support costs associated relevant to the project.[20]

2.23 It further explains that additionality at the individual project level will be evaluated by independent assessors and DBT analysts using written and oral evidence to establish a counterfactual scenario, detailing what the project would look like without government funding. The Assessment and supporting evidence explain that applicants must provide clear justification for why the project cannot be funded independently.[21]

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[16] Statutory Guidance, paragraph 3.66.
[17] Statutory Guidance, paragraphs 3.65–3.69.
[18] Statutory Guidance, paragraphs 3.70–3.72.
[19] Redacted pursuant to section 244 Enterprise Act 2002.
[20] See footnote 4.
[21] The Assessment outlines that beneficiaries may be required to provide internal analyses and publicly available evidence to demonstrate factors such as international mobility, lack of internal funding, cash flow constraints compared to other internal projects, and insufficient rates of return to justify the subsidy.

2.24 In our view, the Assessment clearly explains and evidences how the Scheme would change the beneficiaries' economic behaviour and that the Scheme brings about changes that would not have occurred absent the subsidy. In particular, the presence of individual project-level tests for additionality, and the fact that eligible costs are limited only to those related to the project clearly support the Assessment's explanation. It could however further consider the level of non-additionality in the previous scheme, explain why it would be acceptable in relation to this Scheme and whether it could be minimised further.

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

2.25 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.[22]

### Proportionality

2.26 The Assessment states that the Scheme is proportionate to the specific policy objective of the programme and limited to what is necessary to achieve this. Together with the supporting evidence provided, it explains that the design of competitive selection process will limit spending to what is necessary, ensuring that funding is proportionate to the work that needs to be undertaken by recipients. The selection process will allocate funding based on a value for money assessment, and the amount of each grant will be calculated based on eligible costs, project scope and specific programme guidelines. The Assessment further explains that the match funding requirement provides adequate incentive and financial support for automotive companies to participate in R&D projects and apply for funding, whilst disincentivising over-bidding and ensuring that 'cost-effective work' is undertaken.

2.27 The Assessment explains that the funding can only be spent on its intended purpose, payments will be made in arrears and that DBT is entitled to claw back funds which are not spent as intended. It outlines that there will be regular monitoring embedded within the programme delivery, and scheme delivery partners will be responsible for tracking the progress of each project against a set of key performance indicators in the Grant Funding Agreement. The Assessment

[22] See Statutory Guidance paragraphs 3.74–3.110 and the SAU Guidance, paragraphs 4.15–4.19 for further detail.

explains that the Scheme will also be part of a more comprehensive external evaluation framework for the wider programme of support to the automotive sector.

2.28 In our view, the Assessment clearly outlines a number of features that contribute to ensuring the Scheme is proportionate and limited to what is necessary. It could however provide details of how the absolute grant limit was decided upon based on evidence from the previous programme. It could also include a fuller discussion on how UKRI will assess the proportionality of individual grant amounts, drawing more on the assessment process outlined in the supporting evidence provided.

**Design of subsidy to minimise negative effects on competition and investment**

2.29 In line with the Statutory Guidance, the Assessment sets out several elements of the Scheme which are relevant to minimising distortive impacts including: the nature of the instrument, the breadth of beneficiaries and selection process, the timespan over which the subsidy is given, the nature of the costs being covered, performance criteria, ringfencing, and monitoring and evaluation.

2.30 The Assessment explains that to minimise distortion, the Scheme is targeted specifically at projects which are not part of regular business operations, and which require substantial investment in R&D which would not typically happen without this support. It outlines that although the grant can be used to cover costs such as labour, material and travel, these are not considered to be 'business as usual' because they support high-risk, innovative R&D that would not typically be undertaken without public funding (see paragraph 2.22).

2.31 The Assessment also outlines that evidence from the ongoing, independent evaluation processes will be used to identify, manage and mitigate risk of market distortion as the Scheme is implemented, and the scope of the programme will be adjusted over the longer term so that innovation investment continues to be provided to new technologies as opposed to established products.

2.32 In our view, the Assessment clearly demonstrates how the design features of the Scheme contribute to minimising any negative effects of the Scheme on competition and investment within the United Kingdom. However, it could better explain the rules around how consortia can be formed, and what consideration has been given to ensuring that these collaborations will be as pro-competitive as possible. The Assessment could also explain how the different criteria in the selection process will be weighted in order to minimise distortions and clarify whether competition impacts will be given any consideration within this.

### Assessment of effects on competition or investment

2.33 The Assessment defines the core product market for the Scheme as the ZEV manufacturing sector, a sub-segment of the UK automotive industry. The sub-segment includes the development and production of electric vehicles, hydrogen fuel cell vehicles, and other zero-emission technologies, and related systems and components. The Assessment explains that the sector has both established automotive manufacturers, as well as new entrants specialising in electric and hydrogen technologies.

2.34 The Assessment states that the sector has close competition, but that it is highly diverse and spread internationally. It states that the market for EVs is expanding rapidly, driven by sustainability concerns and regulatory pressures, with the main parameters for competition being price, quantity, quality, brand, reputation and innovation. The Assessment explains that developing zero-emission technologies requires substantial investment, which creates a barrier to entry for smaller firms and limits competition. It also states that the ZEV manufacturing sector is characterised by rapid technological advancement and uncertainty.

2.35 The Assessment states that the Scheme is unlikely to significantly affect market dynamics because there is no strong relationship between competition and innovation at industry level in a steady state. It explains that the industry is highly competitive and influenced by global market dynamics, with R&D grants being just one of many factors driving innovation.

2.36 The Assessment also notes that the Scheme could distort competition because it allows for the provision of grant funding to large incumbent firms in the UK automotive industry, potentially embedding them more firmly within the market, and making it more difficult for new and small disruptor firms to succeed. It goes on to say that the consortium requirements for funding eligibility and the promotion of collaborative R&D will minimise these distortions. The Assessment also states that the positive spillovers and knowledge transfer across the whole supply chain from collaborative R&D investment will mitigate any negative impacts on competition.

2.37 The Assessment makes some use of data from the previous programme, showing that almost two-thirds of the funding has been concentrated across the West Midlands, the South East and East of England and that half the funding went to large organisations. In the case of Tier 1 and original equipment manufacturer (OEM) project participants, the majority of funding went to large organisations.

2.38 Elsewhere in the Assessment, UKRI acknowledges that, while subsidies can crowd out private sector investment, the Scheme is designed to complement rather than displace such investment. It explains that this type of funding for high-risk projects can attract additional private investment, helping companies scale their innovations.

2.39 In our view, the Assessment provides a good overview of the ZEV manufacturing sector and identifies some of the possible impacts of the Scheme on competition and investment. It should, however, seek to identify the main product categories that are likely to be affected by the Scheme, and consider how competition within these different markets could be affected. This could include looking at the number, size and types of players within the markets for these products and the nature of the competition between them, recognising that the competitive dynamics within each market and the potential distortive impacts could be quite different.

2.40 To assist in this, the Assessment could make better use of data and case studies from funding allocation over the previous ten years to identify the markets most likely to be affected as well as any distortive effects. For example, it could set out if the funding has been concentrated amongst any individual larger incumbents, particularly in the OEM and Tier 1 sectors, and the extent to which any players have been able to consolidate a dominant position as a result.

## Step 4: Carrying out the balancing exercise

2.41 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]

2.42 The Assessment details the following benefits of the Scheme:

(a) delivering on-vehicle technologies and/or manufacturing capabilities supporting the transition to ZEVs;

(b) securing long-term R&D investment in the UK automotive sector;

(c) incentivising R&D activities in the sector;

(d) targeting post-project commercialisation to create a lasting economic benefit; and

(e) creating and safeguarding high-value manufacturing jobs.

[23] See Statutory Guidance, paragraphs 3.111–3.119 and the SAU Guidance, paragraphs 4.20–4.22 for further detail.

2.43 The benefits are summarised by stating that they all contribute to meeting the UK's wider strategic goals and objectives, including the government's Industrial Strategy and the Automotive Council's Roadmaps and Strategic technology areas.

2.44 The Assessment also identifies a number of ways that the award of a subsidy through the Scheme could distort competition and investment, while explaining that their impact on competition and investment is likely to be minimal, namely:

(a) increasing the market power of beneficiaries;

(b) efficient competitors exiting the market;

(c) allowing less efficient beneficiaries to remain in the market;

(d) deterring the entry and expansion of competitors;

(e) diminishing incentives of both beneficiaries and competitors to innovate;

(f) distorting resource allocation;

(g) displacing activity; and

(h) crowding out private sector investment.

2.45 In our view, the Assessment clearly identifies the positive effects of the Scheme in relation to the policy objectives. However, while the Assessment identifies several potential negative effects, it should also discuss these impacts more thoroughly. It should also consider a wider range of negative impacts, including potential geographic and distributional impacts, in line with the Statutory Guidance,[24] as well as possible negative impacts on international trade and investment. It should then explicitly weigh the benefits and negative effects against each other.

## Energy and Environment Principles

2.46 This section sets out our evaluation of the Assessment against the energy and environment principles.[25]

2.47 UKRI has conducted an assessment of the Scheme against Principles A and B. Below, we evaluate UKRI's assessment of the compliance of the Scheme with these principles. However, while some of the projects supported by the Scheme may result in outcomes that relate to the energy and environment principles, as the specific policy objective of the Scheme (see paragraph 2.3) does not seem to

[24] Statutory Guidance, paragraphs 3.117–3.119.
[25] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.

directly relate to energy or the environment, UKRI could explain in more detail why it considers the energy and environment principles are applicable to this Scheme.

2.48 In addition, the Assessment explains that UKRI does not consider Principles C to H to be applicable to this Scheme.[26] However, UKRI subsequently clarified to us that 'upon further consideration, we now believe that Principle H could be applicable to a limited number of projects' and that 'specifically, this would apply to projects that directly improve and decarbonise manufacturing processes associated with zero-emission vehicle technologies.' We therefore consider that the Assessment should further consider whether Principle H is applicable to the Scheme, and if so, also consider the compliance of the Scheme with Principle H.

**Principle A: Aim of subsidies in relation to energy and environment**

2.49 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.[27]

2.50 The Assessment explains that the Scheme funds projects that promote a secure, affordable and sustainable energy system and competitive markets. It explains that the Scheme supports projects that improve and decarbonise manufacturing processes, including using non-fossil energy sources and reducing energy consumption through innovations like capture and reuse. The Assessment sets out that these activities will contribute to reducing carbon dioxide emissions.

2.51 In our view, the Assessment should explain in a more detail of how the Scheme complies with Principle A of the energy and environment principles. Specifically, the Assessment should fully explain how the Scheme will be aimed at, and incentivise beneficiaries in, delivering an energy system that is secure, affordable, and sustainable, and a well-functioning and competitive energy market.[28] The Assessment should also explain why UKRI do not consider the second limb of this Principle applicable to the Scheme.

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[26] For completeness, the Assessment should also expressly confirm that UKRI did not consider Principle I applicable to the Scheme.
[27] Statutory Guidance, paragraphs 4.19–4.28.
[28] Statutory Guidance, paragraphs 4.21.

### Principle B: Beneficiary's liabilities as a polluter

2.52 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.[29]

2.53 The Assessment explains that the Schemes does not exempt beneficiaries from their legal responsibilities as polluters under the laws of England, Wales, Scotland, and Northern Ireland as these costs are not eligible for support under the rules of the Scheme.

2.54 In our view, the Assessment clearly explains how the Scheme complies with Principle B of the energy and environment principles.

## Other Requirements of the Act

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

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[29] Statutory Guidance, paragraphs 4.29–4.34.