Subsidy Advice Unit Report on the proposed subsidy to Agratas Limited

Referred by the Department for Business and Trade

21 January 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

The Referral

1.1 On 1 December 2025, the Department for Business and Trade (DBT) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the proposed subsidy (the Subsidy) to Agratas Limited (Agratas) 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 subsidy 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 subsidy should be given, 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 broadly considered the compliance of the Subsidy with the subsidy control and energy and environment principles. In particular, in relation to Principle D, the Assessment explains and evidences how the subsidy would change the beneficiary's economic behaviour and that the Subsidy brings about changes that would not have occurred absent the subsidy.

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

(a) in relation to Principle A,

- describe more clearly the underlying policy aim of the Subsidy
- reassess and distinguish which of the described impacts it expects to achieve directly through the Subsidy, as opposed to being ancillary benefits of wider policy programmes.

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed subsidy to Agratas Limited by the Department of 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.

- provide more reasoning and evidence to support its conclusion that JLR potentially relocating its production could contribute to a scenario where the majority of current UK automotive production leaves the UK

(b) In relation to Principle B,

- set out the specific and distinct benefits of the Subsidy compared with those of other known or anticipated funding sources, and address why the subsidy is proportionate given those other measures;
- supplement its discussion on the selection and assessment process which DBT followed in respect of the Subsidy award with further information and evidence on the parameters applied, and how this ensured that the Subsidy amount is the minimum necessary.

(c) In relation to Principle F,

- explain more clearly the argument that global competition will limit the potential distortive impacts of the Subsidy, including impacts on other UK-based EV manufacturers. This would need to address why international aspects of EV market competition sufficiently mitigate the described advantages to manufacturers of localised battery supply.
- consider the risk that Agratas may have incentives to supply other UK EV manufacturers on less favourable terms than it supplies JLR, in order to enhance JLR's competitive position, and if material, whether there are ways to mitigate this risk.

(d) In relation to Step 4 ensure that only the positive effects and benefits specifically related to the policy objective are included.

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

The referred subsidy

1.8 DBT is proposing to award Agratas a capital grant of up to £380 million, funded from the DRIVE35 Automotive Transformation Fund, to enable the investment in the construction of an EV battery factory (gigafactory) by 2035.

1.9 Agratas is a subsidiary of Tata Sons Private Ltd (Tata),[4] and designs, develops, and manufactures battery cells. DBT have stated that the Subsidy secures an

[4] Agratas is a subsidiary of Tata Sons Private Ltd (Tata), established as a separate legal entity within the Tata Group. Jaguar Land Rover (JLR) has been a wholly owned subsidiary of Tata Motors since 2008, with Tata Sons as the largest shareholder of Tata Motors.

estimated £5.2 billion total capital investment from Agratas. In addition, there is a proposal of support from another public authority, and a wider support package offered by the UK government also includes reported energy cost reductions and local and infrastructure investments.[5] This support is not part of this referral.

1.10 The Assessment states that the investment addresses a gap in the UK's industrial capabilities and helps secure the future of UK automotive manufacturing in the transition from internal combustion engines vehicles (ICEVs) to zero emission vehicles.

1.11 The gigafactory, located near Bridgwater in Somerset, will have an expected capacity of approximately 40GWh once all project phases are completed, making Agratas the largest battery manufacturer in the UK. It is expected to deliver approximately 4,200 direct jobs, 3,000 to 4,000 additional jobs in the supply chain, and support wider UK automotive sector jobs. The gigafactory will supply Jaguar Land Rover (JLR), but may in future also supply other car manufacturers, helping meet a major share of the projected demand from domestic automotive manufacturers by 2035.

1.12 The Subsidy will cover capital expenditure relating to the construction of the factory buildings, and eligible costs include: building, equipment, groundworks, building construction costs, internal fit out costs, equipment costs, installation of equipment costs and quality testing costs. The Subsidy will be paid in instalments, linked to the progress and timings of the project delivery.

1.13 DBT explained that the Subsidy is a Subsidy of Particular Interest because the value of the Subsidy is above the SoPI thresholds, as the total subsidy amount is greater than £25 million.

[5] Jaguar Land Rover owner offered £500m in subsidies to build battery plant in UK | Jaguar Land Rover | The Guardian

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.[6]

Policy objectives

2.3 The Assessment states that the policy objective of the Subsidy is to mitigate under-investment in the UK's EV battery market by incentivising Agratas to build a battery gigafactory in the UK, supporting the transition to EVs.

2.4 The Assessment explains that it aims to incentivise Agratas to internalise the positive externalities resulting from the establishment of a battery gigafactory in the UK, which will have the following impacts:

(a) Secure a £5.2 billion private investment in the UK, representing a significant leverage ratio between public and private funding.

(b) Enable the development of the UK's second large-scale battery manufacturing facility with a battery manufacturing capacity of up to 40GWh per annum by 2035.

(c) Create approximately 4,200 direct jobs, support 3,000-4,000 indirect jobs in the supply chain and anchor other jobs in the wider UK supply chain.

(d) Support reductions in UK carbon emissions in the transition away from ICEVs to EVs.

[6] See Statutory Guidance, paragraphs 3.33–3.59 and the SAU Guidance, paragraphs 3.6–3.10 for further detail.

(e) Secure research and development (R&D) spending by Agratas, providing R&D spillover benefits to the wider automotive and battery sectors.

(f) Help establish a battery manufacturing ecosystem in the UK, providing a foundation for further investments.

(g) Support the UK's automotive sector in meeting Rules of Origin[7] requirements for UK-EU trade.

2.5 In our view, whilst the Assessment clearly describes the broad outcome it wishes to achieve through the Subsidy, namely the construction of a battery gigafactory, it should describe more clearly the underlying policy aim of the Subsidy. This would appear to be, in our reading, the maintenance of a competitive automobile manufacturing sector in the UK, with the attendant high value direct and indirect jobs it maintains.

2.6 DBT should ensure its policy objective is consistently reflected in Step 1 and throughout the remainder of the Assessment. DBT also should then reassess and distinguish which of the described impacts listed in the Assessment it expects to achieve directly through the Subsidy, as opposed to being ancillary benefits of wider policy programmes.

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 describes the following positive externalities as relevant market failures:

(a) R&D spillovers from planned R&D investment arising from collaborations with other enterprises, academic institutions, and recruitment of specialists. The Assessment states that while Agratas will benefit from R&D proprietary knowledge and intellectual property, Agratas would not have the incentive to invest at the socially optimal level for the wider UK battery sector, due to limited appropriability of these benefits.

(b) Carbon emission reductions from replacing JLR ICEVs driven in the UK with EVs, contributing to the UK's net zero commitments. The Assessment states

[7] These Rules of Origin requirements in the Trade and Cooperation Agreement set out criteria for vehicles traded between the UK and EU that qualify for zero tariffs – including that a certain proportion by value of the vehicle must originate in either the UK or the EU. If these criteria are not met, vehicles will face a 10% tariff at the EU or UK border. By 2027, 55% of the value of vehicles exported from the UK to the EU will need to be manufactured in either the UK or EU. EU – UK rules of origin for electric vehicles and batteries

[8] Statutory Guidance, paragraphs 3.36–3.51.

that Agratas does not account for the full social value of these environmental benefits in its private decision-making.

(c) Indirect employment in the local economy and safeguarding of jobs in the UK EV supply chain, including across JLR's supply chain, which will act as an anchor for future automotive sector investment. The Assessment explains that Agratas does not factor broader labour market and regional development benefits into its decision, and in the absence of the Subsidy this would lead to under-provision of socially beneficial employment.

(d) Training programmes and apprenticeships that enhance human capital and raise future productivity, leading to wider employment and wage benefits to society. The Assessment explains that these are not fully captured by Agratas, leading to investment below the socially optimal level in the absence of Subsidy.

2.9 These positive externalities are supported by evidence in a value for money analysis provided by DBT.

2.10 In our view, the Assessment describes some relevant market failures that the Subsidy seeks to remedy. However, it does not fully explain how the Subsidy addresses other market failures, for example carbon emission reductions (see paragraph 2.33).

Equity Objective

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

2.12 The Assessment explains that JLR, like other vehicle manufacturers,[10] may move production out of the UK if it faces the structural cost disadvantage of a key part of its EV supply chain not being sourced locally (see paragraph 2.30). DBT estimated that not only would this result in significant job losses for direct and indirect staff (eg in JLR's supply chain), but also considered that that this could significantly contribute to wider potential implications for UK automotive production, including the possibility that the majority of current UK automotive production leaves the UK.

2.13 The Assessment explains that the UK automotive sector is a high productivity and high export sector. The Assessment argues that, if the UK continues to lag behind other countries in the EV transition,[11] its automotive sector may become 'hollowed

[9] Statutory Guidance, paragraphs 3.52–3.56.
[10] The Assessment cites examples of Stellantis closing a factory in Luton putting 1,100 jobs at risk and Ford cutting 800 UK jobs over the next three years.
[11] The Assessment explains that the UK's Zero Emissions Mandate will end the sale of new ICEVs and hybrid vehicles from 2035, and that globally this transition will require nearly $1.2 trillion of investment by 2030.

out' due to lack of investment and manufacturers relocating to countries with developed EV supply chains.

2.14 DBT explained that this risk poses an equity concern, because the automotive sector employs over 150,000 people directly and supports 300,000 jobs indirectly, with 87% of direct jobs located outside of the affluent areas of London and the South East. In the areas where automotive jobs are concentrated, the average wage for automotive workers is higher than the average local wage. JLR's supply chain is mainly located in the West Midlands, which also contains several highly deprived areas.[12] The Assessment argues that the gigafactory would retain jobs in the West Midlands and create new jobs.

2.15 DBT sets out that in the do-nothing scenario in the absence of the Agratas investment in the UK (see Step 2), the loss of an important employer would have lasting damaging effects on that area. Evidence provided shows it could result in unemployment, loss of skills and income, impacts on physical and mental health, increased excess mortality, and wider negative social outcomes. It argues that this could impact direct employees and have knock-on impacts for indirect employment that the automotive sector supports.

2.16 In our view, the Assessment describes and evidences the equity objective that the Subsidy seeks to address. In doing so, it focusses on the potential indirect impacts and job losses in the wider automotive sector, at JLR and in its supply chain, in the event of no Subsidy.

2.17 However, the Assessment should provide more reasoning and evidence to support its conclusion that JLR potentially relocating its production could contribute to a scenario where the majority of current UK automotive production leaves the UK.

2.18 The Assessment could also consider relying more specifically on the reasoning and evidence provided for direct local job creation in establishing an equity objective. This could potentially include analysis and evidence of the local and regional disadvantages of the region surrounding the Somerset site and how the Subsidy will address these inequalities.

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]

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[12] The Assessment cites evidence that average wages in the West Midlands are 8% lower than the UK average and 26% lower than the London and South East average wage, and references maps that show areas of the UK, including the West Midlands, where automotive sector salaries are higher than the average salary.
[13] Statutory Guidance, paragraphs 3.57–3.59.

2.20 The Assessment explains that DBT has considered the following means to achieve the policy objective:

(a) commercial loans to fund the cost of the expansion;

(b) equity investment; and

(c) other business environment measures, including grid infrastructure, transport measures, energy industry support, and capital expensing.

2.21 The Assessment states that commercial loans would be ineffective as an option, as it would widen the cost gap due to these loans having a substantial cost. It further explains that while equity investment could have been completed within the necessary timeframe, the amount of funding required would impact the ownership of Agratas and negatively impact the internal rate of return of Tata's investment, leading to this being ineffective as an option.

2.22 The Assessment also states that while the other business environment measures (see paragraph 2.20(c)) have been taken, they are not significant enough to bridge the cost gap between the UK and Spain locations, and therefore additional funding is still required.

2.23 In our view, the Assessment considers a number of alternatives to the Subsidy and explains why, in DBT's view, these would not achieve the policy objective.

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

2.24 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.[14]

[14] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 3.11–3.13 for further detail.

Counterfactual

2.25 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).[15]

2.26 The Assessment sets out a counterfactual scenario in which, absent the Subsidy, the Agratas gigafactory would not be built in the UK, but instead would be built in Spain.[16]

2.27 The counterfactual is supported by financial modelling and due diligence conducted by a professional services firm. The analysis revealed a substantial cost advantage in favour of Spain compared to the UK, with Spain offering suitable facilities and expertise to support the project.

2.28 The Assessment further explains that sunk costs already incurred in the UK would not pose a material barrier to this relocation to Spain. High demand for land in the UK would enable Agratas to recover most of the costs associated with its already acquired site through resale. Other sunk costs, such as project planning expenses and redundancy costs for UK staff, are deemed minor and unlikely to deter Agratas from pursuing relocation to Spain.

2.29 The Assessment argues that in the counterfactual, the policy objective(s) described in Step 1 would not be achieved. It states that in the short term there will be an increased reliance on imported batteries from India and other Asian manufacturers to meet JLR production needs in the short term, until the counterfactual gigafactory in Spain is operational. Sourcing batteries from the gigafactory in Spain would avoid compliance risks with Rules of Origin regulations and consequent tariffs.

2.30 DBT provided additional clarification, expanding on longer-term possibilities mentioned in the Assessment. In its response, DBT clarified that the co-location of battery and EV production within the same customs area would create a structural cost advantage for JLR's operations in the EU over those in the UK, due to reduced logistics costs and fewer complex regulations and barriers when crossing borders. DBT explained that, over time, this systemic disadvantage could lead JLR to relocate its vehicle production closer to the counterfactual battery plant in Spain, resulting in significant job losses at JLR's UK vehicle production and its wider supply chain.

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[15] Statutory Guidance, paragraphs 3.63–3.65.
[16] DBT's Clarification Response confirms that the counterfactual scenario (building the gigafactory in Spain) and the 'Do-Nothing' scenario (no Agratas investment in the UK) are treated as the same for Value for Money analysis.

2.31 In our view, the Assessment, and subsequent clarification response, describes what would be likely to happen if the Subsidy was not awarded.

2.32 However, whilst DBT has provided a qualitative explanation of the systemic disadvantages that could lead to JLR relocating its vehicle production closer to the counterfactual gigafactory in Spain, the Assessment should provide further evidence to substantiate the link between importing batteries from Spain (benefitting from no tariffs under the Rules of Origin requirements) and an expected relocation of EV production with resultant significant further job losses in the UK automotive sector.[17]

2.33 Likewise, the Assessment could also consider the impact in the counterfactual scenario on the achievement of other elements of the policy objectives, such as research and development in UK battery technology and the UK's transition to electric vehicles, and whether the environmental benefits from the use of EV batteries would be realised regardless of their production location.

Changes in economic behaviour of the beneficiary and additionality

2.34 Subsidies must bring about something that would not have occurred without the subsidy.[18] 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').[19]

2.35 The Assessment explains that the Subsidy is designed to incentivise Agratas to build a gigafactory in the UK. It emphasises that the additionality of the Subsidy has been rigorously evaluated to confirm that the UK gigafactory would not proceed without the Subsidy.

2.36 The Assessment refers to the external due diligence report, which verified the substantial cost gap favouring Spain and demonstrated that the Subsidy, combined with non-financial factors, would effectively incentivise Agratas to select the UK as the location for its gigafactory. As reflected in the due diligence report, Agratas also provided DBT with detailed evidence and explanations of its counterfactual scenario, including financial modelling that substantiates the cost gap as the basis for its grant request.

2.37 In our view, the Assessment explains and evidences how the Subsidy would change the beneficiary's economic behaviour and that the Subsidy brings about changes in that behaviour, namely the construction of a gigafactory in the UK, that would not have occurred absent the Subsidy.

[17] As also noted at paragraph 2.17.
[18] Statutory Guidance, paragraph 3.67.
[19] Statutory Guidance, paragraphs 3.66–3.70.

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

2.38 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.[20]

Proportionality

2.39 The Assessment states that the Subsidy is proportionate and limited to the minimum necessary, as Agratas will not achieve a cost advantage by investing in the UK. It also explains that the due diligence report reviewed Agratas' financial modelling exercise, stating the approach was reasonable in this context.

2.40 The Assessment also contains a description of features of the Subsidy related to proportionality and minimum necessary, including:

(a) a value of up to £380 million, which represents less than 10% of the total investment for the gigafactory;

(b) a phased payment structure consisting of repayable and non-repayable elements based on milestones, enabling the Subsidy to scale with Agratas' battery production capacity;

(c) payments are made in arrears following a verification process with submitted evidence, which will be reviewed by an independent monitoring officer, and some payments may require an independent accountant report;

(d) project-level monitoring on a quarterly basis, and an Automotive Transformation Fund (ATF) scheme-level monitoring and evaluation process;

(e) an application and awards process that 'other ATF/subsidy applications' go through. This required Agratas to evidence why the Subsidy and subsidy value is necessary, and included a review of company financials validated by external due diligence, and which has been assessed to provide value for money;

(f) there are clawback provisions relating to the number of jobs created; and

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

(g) the Subsidy will be reviewed by an internal DBT board, an expert committee (the Industrial Development Advisory Board), and require final approval from DBT ministers and HM Treasury.

2.41 The Assessment explains that the Subsidy is part of a wider support package (see paragraph 1.9), which potentially includes grant funding from another public authority and other infrastructure development.

2.42 Additionally, the Assessment provides a sense of relative size of the Subsidy by comparing it to the UK EV battery market. While relatively large, it notes that it is a nascent market and the policy objective is to grow the market.

2.43 In our view, the Assessment provides some useful detail on a number of design features that are relevant to proportionality and to ensuring the Subsidy is the minimum necessary.

2.44 However, the Assessment should supplement its discussion on the selection and assessment process which DBT followed in respect of the Subsidy award with further information and evidence on the parameters applied, and how this ensured that the Subsidy amount is the minimum necessary. As part of this, it could, if applicable, set out how Agratas would meet the criteria for selection under the ATF programme.

2.45 Further, as noted above the Assessment acknowledges that there is other anticipated support for the project and notes the complementary nature of other funding sources available (eg the National Wealth Fund). Given this, the Assessment should set out the specific and distinct benefits of the Subsidy compared with those of other known or anticipated funding sources, and address why the subsidy is proportionate given those other measures.

Design of subsidy to minimise negative effects on competition and investment

2.46 The Assessment states that the Subsidy has been carefully designed to establish the gigafactory while minimising potential negative impacts on competition and investment. A number of the features set out in paragraph 2.40 are also relevant to minimising the negative effects on competition and investment. However, the Assessment identifies further aspects of Subsidy design, including the following:

(a) The Subsidy is solely for capital expenditure relating to construction, and not to finance ongoing operational expenditure.

(b) The Subsidy is time-limited with the initial £300 million to be paid between 2025/26 and 2027/28, and with the remainder of the Subsidy's time frame being agreed during the final grant offer.

(c) There are measures in place to avoid the Subsidy covering any 'business as usual' costs during or after the project, which mitigates potential negative impacts on market competition.

(d) The Subsidy is a one-time, milestone-based capital grant, which limits market distortion by focusing on overcoming initial investment barriers, with the one-off nature of the Subsidy preventing the propping up an inefficient company.

(e) The Subsidy is a limited proportion of the total investment, which ensures that Tata Group maintains strong commercial incentives and bears the majority of project risk.

2.47 In our view, the Assessment contains an explanation of various design characteristics which contribute to minimising any negative effects of the Subsidy on competition and investment within the United Kingdom.

2.48 However, the Assessment could also explain why a less distortive form of subsidised instrument, such as a loan on preferential terms, would not be suitable rather than a grant, in order to meet the policy objective.[21]

Assessment of effects on competition or investment

2.49 The Assessment states that the relevant markets are the EV battery cell manufacturing market and the EV market (as a downstream market). It describes the impact of the Subsidy for each market at the enterprise level, including through manufacturing shares for various different geographic areas. The Assessment also describes government support available in other countries.

EV battery competitive assessment

2.50 The Assessment provides useful context and information on UK and global market structure, including manufacturing market shares. It also describes European battery manufacturers. It notes that the UK currently has one large-scale domestic EV battery cell manufacturer, AESC, which supplies Nissan, which has received government funding, and provides AESC's future expected production capacity.

2.51 The Assessment describes various aspects of UK and global market demand for batteries, stating that global demand for EV batteries is expected to grow exponentially. It states that estimated 2035 UK demand will be larger than AESC's future production, and that there will be additional pressure for localised battery production due to Rules of Origin requirements.

2.52 The Assessment provides an analysis of the potential market impacts of the Subsidy on UK and global battery markets. It anticipates that the Agratas

[21] See Statutory Guidance, paragraphs 3.83–3.85.

gigafactory is unlikely to impact global market concentration, as by 2030 Agratas will represent less than 1% of predicted global demand.

2.53 The Assessment notes that Agratas' forecast annual production is larger than existing UK production, but states that it will not have a negative impact on competition. The Assessment considers risks brought about by the Subsidy and discusses mitigating factors for each of these concerns:

(a) While the subsidy could give Agratas market power, market distortions are made less likely by the emerging and growing nature of the battery market and its focus on untapped demand.

(b) The risk of forcing out existing UK market players is unlikely as AESC has a network of clients who are not the target market of Agratas' output (and has received UK government subsidies).

(c) On the risk of deterring the entry and expansion of competitors, the Assessment states that the UK government has committed to supporting firms in attempting to enter the UK EV supply chain, with future support available to potential new competitors. Also, the expected demand for domestically-manufactured EV batteries is expected to significantly outstrip supply, leaving room for new firms to enter the market.

(d) On risks of crowding out private sector investment, the Assessment states that the Subsidy is inducing private investment in the UK that would not have occurred otherwise, while allowing scope for further private investment in the sector through new entrants.

EV competitive assessment

2.54 The Assessment presents current and forecast global EV market shares. These, it states, with Tata forecast to account for only 2% of the global market in 2035,[22] suggest the Subsidy will have minimal distortive impact on the global market. The Assessment presents current UK vehicle manufacturing and EV manufacturing volumes and shares, reflecting that UK EV production currently represents a small proportion of the total, and is limited in comparison with JLR's projected EV production.

2.55 The Assessment considers potential impacts on competition in the EV market, in that:

(a) there is potential for the Subsidy to distort the UK EV market in JLR's favour given that Agratas intends to primarily supply JLR;

[22] Only part of the increase in Tata's production is due to increase EV production by JLR in the UK.

(b) this could give JLR a ‘comparably large advantage [relative] to other UK EV manufacturers’ given Agratas batteries are likely to be cheaper than imported batteries; and

(c) this could see JLR consolidate a larger share of the UK automotive sector, especially as the future EV mandate stipulates that manufacturers must end production of ICE vehicles, increasing demand for EV batteries that may be difficult for other manufacturers to acquire.

2.56 Having identified these potential effects, the Assessment states that the negative impacts of the market distortion in favour of JLR are expected to be minimal and the Subsidy offered may have positive spillover impacts from JLR remaining in the UK (as discussed under Step 1) that could improve the UK automotive sector generally.

2.57 The Assessment states that 80% of vehicles manufactured in the UK are exported. It argues that global competition limits the potential distortive impacts of the Subsidy for UK-based manufacturers, because they will continue to experience competition from foreign firms whose supply chains also receive large levels of government funding.

2.58 In our view, the Assessment considers and evidences some of the effects of the Subsidy on competition and investment in the UK, in line with Annex 3 of the Statutory Guidance. In particular, the market shares contextualise the size of Agratas and JLR currently and in the future, which aids understanding of the impact of the subsidy, and the considerations on AESC are also informative. However, the Assessment should:

(a) having recognised that other UK-based EV manufacturers may face a battery cost disadvantage against the vertical integration of JLR, explain more clearly its argument that global competition will limit the potential distortive impacts of the Subsidy, including impacts on other UK-based EV manufacturers, or recognise the potential negative effects explicitly in the Step 4 balancing exercise. This would need to address why international aspects of EV market competition sufficiently mitigate the described advantages to manufacturers of localised battery supply; and

(b) consider the risk that Agratas may have incentives to supply JLR on more favourable terms than other EV manufacturers, in order to enhance JLR’s competitive position, and if material whether there are ways to mitigate this risk.

2.59 The Assessment could also:

(a) explicitly provide the relevant geographic market definitions for the battery and EV markets for UK customers of battery and EVs upfront, to help frame the discussion and conclusions on the impacts of the Subsidy on markets more clearly; and

(b) include shares of UK EV sales (as well as production).

Step 4: Carrying out the balancing exercise

2.60 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]

2.61 The Assessment sets out of the benefits of the Subsidy. It states monetised benefits include the creation and safeguarding of direct employment, alongside indirect employment growth across wider supply chains. Additional benefits arise from R&D spillovers linked to Agratas' R&D activity, forecast carbon savings from the project, and strategic contributions to the UK automotive supply chain, helping to anchor the zero-emission vehicle industry in the UK. It notes in estimating the value of these benefits:

(a) employment benefit impacts include direct, indirect, and anchored automotive jobs. Wage premium benefits are estimated by comparing Agratas wages to local average wages, capturing regional, place-based benefits arising from the creation of higher-than-average wage jobs, which are reflected within the overall employment impacts;

(b) R&D Spillover benefits, estimated using evidence from previous automotive grants, which shows that a proportion of R&D expenditure generates benefits for the wider economy; and

(c) carbon emission benefits arising from reduced emissions as EV batteries replace internal combustion and hybrid vehicles, but also taking account of emissions from construction and battery production.

2.62 The Assessment then goes on to consider the potential impact of the Subsidy on international trade and competition, analysing how global and regional production shares in the relevant market for EV batteries could be impacted by Agratas choosing to locate in the UK.

2.63 The Assessment explains that while the Subsidy could be viewed as conferring an advantage on UK-based production, its scale is broadly in line with international norms. It goes on to explain that the Subsidy represents a relatively small share of global battery demand, so the risk of significant market distortion is limited.

[23] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 3.19–3.21 for further detail.

2.64 The Assessment concludes that the benefits of achieving the policy objectives of the Subsidy outweigh the potential negative effects.

2.65 In our view, the Assessment sets out a number of positive effects of the Subsidy, some of which relate to the policy objective and its geographic impacts, as well as potential negative impacts, and conducts a high-level balancing exercise.

2.66 However, DBT should reflect what changes may be necessary to Step 4 following its consideration of our recommendations from paragraphs 2.5 and 2.6 and ensure that only the positive effects and benefits specifically related to the stated policy objective are included in this step.

2.67 The Assessment could then more fully set out how DBT has satisfied itself that these benefits outweigh the potential negative effects as part of its balancing exercise.

Energy and Environment Principles

2.68 This section sets out our evaluation of the Assessment against the energy and environment principles.[24]

2.69 DBT has conducted an assessment of the Subsidy against Principles A and B. In doing so, it has relied on the fact that an intended purpose of the Subsidy is the reduction in carbon emissions associated with the transition from ICEVs to EVs. For the purposes of our evaluation of the Energy and Environment Principles assessment we have assumed that carbon emissions will be reduced relative to the Counterfactual. However, DBT should reconsider the applicability of these principles having considered our advice at paragraphs 2.10 and 2.33.

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

2.70 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.[25]

2.71 The Assessment states that the Subsidy is consistent with Principle A(b) of the Energy and Environment Principles, as it incentivises Agratas to invest in a gigafactory which would not otherwise happen in this form, and which, in supporting the transition away from ICE vehicles, represents an overall increase in

[24] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.
[25] Statutory Guidance, paragraphs 4.19–4.28.

protection for the environment. The Assessment relies on paragraph 4.27 of the Statutory Guidance, which states that a subsidy with a specific policy objective related to promoting net zero will ‘tend to be consistent with Principle A’, to explain that the subsidy is consistent with the principle.

2.72 The Assessment states that as a part of its value for money assessment, it will deliver monetised CO2 savings primarily from use of Agratas produced EV batteries in EVs in the UK. The Assessment goes on to explain that the construction and production emissions associated with Agratas are offset against these, to obtain a net value of emissions reductions which are then monetised using DESNZ published values of carbon emissions.

2.73 In our view, the Assessment explains why it concludes that the Subsidy complies with Principle A of the Energy and Environment Principles.

Principle B: Beneficiary’s liabilities as a polluter

2.74 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.[26]

2.75 The Assessment states that the Subsidy is not inconsistent with Principle B as DBT is not aware that Agratas has any liabilities or responsibilities as a polluter, and this subsidy is not relieving them of any liabilities.

2.76 In our view, the Assessment states how the Subsidy complies with Principle B of the Energy and Environment Principles.

Other Requirements of the Act

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

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[26] Statutory Guidance, paragraphs 4.29–4.34.