

Subsidy Advice Unit Report on the Electric Car Grant subsidy scheme

Referred by the Office for Zero Emission Vehicles

24 March 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 4 February 2026, the Office for Zero Emission Vehicles (OZEV) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to the Electric Car Grant subsidy scheme (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).²
- 1.2 This report evaluates OZEV'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 and relevant information submitted by third parties. The SAU received and considered one third party submission.
- 1.3 This report is provided as non-binding advice to OZEV. 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, OZEV has considered, in broad terms, the compliance of the Scheme with the subsidy control and energy and environment principles. In particular, the Assessment clearly describes the specific policy objective of the Scheme and related market failures that it seeks to address. It also explains clearly why the Scheme complies with the Energy and Environment Principles A, B and H.
- 1.6 However, we have identified the following areas for improvement. The Assessment should:
 - (a) clearly identify who are the beneficiaries of the Scheme (both directly and indirectly) for the purpose of Subsidy Control, and assess compliance of the Scheme in relation to those beneficiaries;
 - (b) ensure that key statements throughout the Assessment are substantiated by relevant evidence;

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed Electric Car Grant subsidy scheme by the Office for Zero Emission Vehicles - 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) better draw on available evidence to explain what would be likely to happen to the upfront cost of zero emission vehicles (ZEVs) absent the Scheme, and consider the likely impact of other policies also supporting the transition to ZEVs that would continue in the counterfactual (Principle C). It should consider in more detail how manufacturers' change of behaviour will lead to a reduction of the upfront cost of ZEVs (Principle D);
- (d) further explain what different grant amounts and price cap thresholds were tested within the choice modelling and the outcomes of such tests to establish these are set at the minimum necessary to achieve the policy objective. It should also consider the proportion of additional ZEVs funded by the Scheme relative to the ZEV Mandate requirements (Principle B);
- (e) include further analysis of current and potential ZEV competitors and their market shares, which manufacturers of ZEVs are likely to benefit from the Scheme given the price threshold for the Scheme, and the specific manufacturers that will benefit from the Scheme compared to others, including their respective position on the market, and whether any competitive advantage arising for individual manufacturers could or should be mitigated (Principle F); and
- (f) explain how OZEV has weighted positive effects against negative impacts to determine that the benefits of the Scheme outweigh the negatives. As part of this balancing exercise, it should consider the distributional impact of the Scheme and the impact of the Scheme on international trade or investment (Principle G).

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

The referred scheme

1.8 The Scheme operates as a grant that is applied as direct discount on the purchase price of eligible zero emissions cars.⁴ The Scheme applies only to ZEVs priced at or below £37,000⁵ which meet specific environmental and technical criteria⁶ intended to support the transition to ZEVs and incentivise more sustainable manufacturing. This includes that manufacturers must have been independently assessed as aligned with the goals of the Paris Climate Agreement by internationally recognised standards.

⁴ One of the Scheme's eligibility criteria is that the vehicle is a M1 Passenger Vehicle (used for the carriage of passengers).

⁵ A further £5,000 of flexibility is allowed for optional extras if the base vehicle is priced below £37,000.

⁶ See [How to apply for vehicle eligibility for the Electric Car Grant - GOV.UK](#) for further details on environmental assessment.

- 1.9 The grant amounts available for specific ZEVs are tiered based on sustainability criteria, with the purchase of vehicles in band one receiving a grant of up to £3,750 and band two vehicles receiving up to £1,500. Vehicle dealers will apply the grant to eligible ZEV orders, and grants will be paid to the ZEV manufacturer who will enter into a legal agreement with the Government. There are no caps on the amount of grants that a single manufacturer can receive.
- 1.10 The referred Scheme is UK-wide and will operate from 1 April 2026 until March 2030, or until budgets are exhausted (£1.84 billion). It will build on the previous plug-in car scheme which ran from 2011 to 2022⁷ and will continue an existing scheme⁸ launched in 2025.
- 1.11 The Assessment explains that the amount of grant available may be subject to change over the Scheme's operation to ensure value for money is maintained. In addition, the precise budget allocated to each financial year within the Spending Review period will be reactive, allowing for consideration of the potential for the ZEV market to develop and mature alongside the wider automotive industry.
- 1.12 OZEV explained that the Scheme is a Subsidy Scheme of Particular Interest because it will support beneficiaries involved in an industry identified by the Subsidy Control Act 2022 as being in a sensitive sector⁹ and will allow for the provision of one or more subsidies during the lifetime of the Scheme to be given to beneficiaries which may exceed £5 million.¹⁰

⁷ The original Plug-in Car Grant was a government initiative launched in 2011 aimed at promoting the purchase of electric cars in the UK. It offered a discount of up to £1,500 on the purchase price of eligible electric vehicles costing less than £32,000. It was discontinued in 2022. Further information can be found here [Plug-in grant for cars to end as focus moves to improving electric vehicle charging - GOV.UK](#).

⁸ The scheme was exempted by the Secretary of State for Business and Trade from Subsidy Control assessment due to the exceptional nature of events in 2025. The Assessment states that HM Treasury has subsequently allocated further funding for the Scheme, which is greater than the permitted 25% modification to the original budget, and as such the modified Scheme has been referred to the SAU for assessment against the subsidy control principles.

⁹ The sector identified is The Manufacture of Motor Vehicles (SIC Code 29.10).

¹⁰ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) and [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) \(Amendment\) Regulations 2025](#) which set out the conditions under which a subsidy or scheme is considered to be of particular interest.

2. The SAU's Evaluation

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

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.¹¹

Policy objectives

2.3 The Assessment states that the policy objective of the Scheme is to reduce the upfront cost of ZEVs that meet specific environmental and technical criteria, making them more accessible to a broader range of consumers. The Assessment further explains that in supporting the uptake of ZEVs, the Scheme will help the industry to meet targets and further contribute towards the Government's net zero objectives of:

- (a) enabling a reduction in carbon emissions from the tailpipe, an improvement in air quality, as well as lower vehicle running costs;
- (b) supporting sustainable environmental manufacturing processes and sustainable supply chains; and
- (c) supporting the auto industry during a period of global uncertainty and challenge.

2.4 The Assessment explains that the Scheme is an integral part of the policy framework to achieve the Government's ZEV Mandate,¹² which is described as a single largest carbon saving measure in Government. This in turn will complement both the Government's wider policy objectives linked to delivery of its clean energy

¹¹ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

¹² The ZEV Mandate requires an increasing percentage of new vehicle sales to be zero emission each year up to 2035. The target for 2025 is 28%, then 33% for 2026, rising to 80% by 2030.

and growth missions and its legal obligations to meet zero and interim Carbon Budgets established under the Climate Change Act 2008.¹³

- 2.5 The Assessment further states that the Scheme will contribute to the achievement of wider related benefits including:
- (a) supporting economic growth by fostering innovation, green jobs in the automotive sector and battery manufacturing supply chains and attracting investment within the sector and wider economy;
 - (b) supporting low-income households by increasing the supply of affordable ZEVs in the used market over time;
 - (c) supporting wider societal benefits such as improved public health outcomes due to reduced greenhouse gas (GHG) emissions and long-term savings in both fuel duty and maintenance costs for consumers; and
 - (d) encouraging investment in the development of chargepoint infrastructure as a result of increased demand for ZEVs.
- 2.6 In our view, the Assessment clearly describes and evidences the specific policy objective of the Scheme and helpfully places the Scheme within the wider context of Government policy commitments and legal obligations related to Net Zero.

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.¹⁴
- 2.8 The Assessment discusses negative externalities associated with petrol and diesel car use. It explains that manufacturers and consumers do not adequately consider the social benefits, such as environmental costs and benefits, that arise from their business and purchase decisions but only consider private benefits. The Assessment states that this results in the market delivering fewer ZEVs on the road than is socially optimal. The Scheme will mitigate this by incentivising demand for ZEVs by reducing their upfront cost and price differential with petrol and diesel alternatives, helping to make them more accessible to a wider range of consumers.

¹³ The Climate Change Act 2008 established a system of carbon budgets to help the UK meet its legally binding emission reduction targets. The Act sets a legally binding cap on the maximum level of emissions allowed from the UK in successive five-year periods, with the aim of reaching 'net zero' by 2050.

¹⁴ [Statutory Guidance](#), paragraphs 3.36–3.51.

- 2.9 The Assessment further describes carbon leakage¹⁵ as an extension to the negative externality-based market failure. The Assessment explains that carbon leakage and associated embodied carbon emissions¹⁶ are a particular concern in vehicle manufacturing because, while ZEVs do not produce any tailpipe carbon emissions, the potential intensity of some vehicles' embodied carbon emissions is at odds with the Government's aim to significantly reduce carbon emissions. The Assessment states that targeted government intervention that supports sustainable assembly, manufacturing, and transportation will encourage manufacturers to consider the embodied emissions within their vehicles and reduce the risk of carbon leakage.
- 2.10 In our view, the Assessment clearly describes and evidences the market failures that the Scheme seeks to remedy which are consistent with the policy objectives of the Scheme.

Appropriateness

- 2.11 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.¹⁷
- 2.12 The Assessment explains that OZEV has considered the following means to achieve the policy objective:
- (a) **Regulation.** The Assessment explains that annual targets for ZEV registration have increased uptake but also caused significant challenges to some manufacturers. It concludes that regulation alone will not achieve the ZEV Mandate as the targets for 2024 and 2025 were missed.¹⁸
 - (b) **Loans.** Industry engagement has indicated that access to and cost of capital are not considered fundamental issues at either enterprise or personal finance level. A low or zero interest option may increase demand but would likely cause extensive administration costs.
 - (c) **Vehicle Taxation.** The Assessment acknowledges that to date, taxation incentives have played a key role in driving ZEV uptake. However, aside from schemes such as the favourable Company Tax Car rates, which are not available to all, other taxation incentives have now been removed. The Assessment explain that these changes were made in the wider context of

¹⁵ The Assessment defines carbon leakage as the process by which one country reduces its emissions by moving production to another country that may have less stringent environmental regulation governing manufacture and production.

¹⁶ The Assessment defines embodied carbon emissions as the overall carbon produced from the product's whole life cycle manufacturing and assembly processes, including transportation of the product to its point of sale.

¹⁷ [Statutory Guidance](#), paragraphs 3.57–3.59.

¹⁸ In 2024, the ZEV Mandate required 22% of new vehicle sales to be zero emission; industry achieved just over 19%. The ZEV Mandate car target for 2025 was 28%, and the market saw a 23.43% ZEV share.

the country's public finances, as exempting ZEVs from taxation measures while their numbers increase as a proportion of all vehicles on the roads would remove a significant source of income from the future public purse.

- 2.13 The Assessment explains that short-term interventions, such as the Scheme, with clear outputs in the next three years, are needed to improve consumer sentiment toward ZEVs, stimulate demand and accelerate the pace of the ZEV transition to meet the ZEV Mandate targets. It explains that grant support such as the previous version of the Scheme (the Plug-in Car Grant, see footnote 7) and other schemes targeted towards improving the accessibility and affordability of ZEV infrastructure have proven effective at addressing barriers to ZEV uptake when this support is available.
- 2.14 The Assessment demonstrates that OZEV have considered alternative options to subsidy. However, the Assessment could consider in more detail the relative cost and distortionary impact of tax-based measures compared to the Scheme.

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

- 2.15 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.¹⁹

Counterfactual

- 2.16 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).²⁰
- 2.17 The Assessment sets out a counterfactual scenario, where without the continuation of the Scheme, consumer demand is likely to be adversely impacted. The Assessment explains that OZEV has conducted consumer choice modelling to project ZEV uptake under a range of scenarios using updated total fund budget

¹⁹ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

²⁰ [Statutory Guidance](#), paragraphs 3.63–3.65.

levels. The modelling draws on data on consumer preferences and is used to estimate the impact of the proposed grant amounts on demand for ZEVs.

- 2.18 The Assessment states that, if consumer demand fails to match the level needed to meet ZEV Mandate compliance, manufacturers may need to either pay the required compliance payment²¹ or reduce the overall numbers of new vehicles sold to deliver the percentage of new vehicles sold that are electric. OZEV's internal modelling shows that without the Scheme, the number of ZEV sales in the UK would be lower for the financial year 2026 to 2027.
- 2.19 The Assessment notes the following adverse impacts in the counterfactual:
- (a) If manufacturers opt to supply fewer vehicles in the new market, the average age of cars in the fleet will rise and GHG emissions will rise above projected levels, posing a legal risk to the Government's climate commitments alongside the negative environmental impact.
 - (b) ZEV Mandate targets may place greater financial pressure on vehicle manufacturers as targets ramp up, leading to pressure for further Government support.
 - (c) The acceleration of industry plans to decarbonise may not happen.
- 2.20 In our view, the Assessment describes what would likely happen if the Scheme was not implemented. However, it should:
- (a) better draw on available evidence to explain what would likely happen to the upfront cost of ZEVs in the counterfactual; and
 - (b) Discuss, at a high level, the likely impact of other policies also supporting the transition to ZEVs that would continue in the counterfactual.

Changes in economic behaviour of the beneficiary and additionality

- 2.21 Subsidies must bring about something that would not have occurred without the subsidy.²² 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').²³ For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme's design

²¹ The ZEV Mandate requires an increasing percentage of new vehicle sales to be zero emission each year up to 2035. The target for 2025 is 28%, then 33% for 2026, rising to 80% by 2030. The compliance payment is currently set at £12,000 per electric car short of the target.

²² [Statutory Guidance](#), paragraph 3.67.

²³ [Statutory Guidance](#), paragraphs 3.66–3.70.

can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy.²⁴

- 2.22 The Assessment explains that OZEV expects uptake in ZEVs to increase as a result of the Scheme. In support of this statement, the Assessment quotes a Department for Transport (DfT) survey showing that cost to buy is frequently cited as a disadvantage of electric car use.
- 2.23 The Assessment further explains that, to set the grant amount, OZEV balanced the need to narrow down the upfront purchase cost differential between internal combustion engine vehicles and the most sustainably manufactured ZEVs with the need to support a large number of vehicles within the available budget. It notes that different grant amounts, and varying thresholds between the bands were tested to optimise the grant amounts and maximise additionality from the grant. The Assessment explains that OZEV found that the Scheme could fund up to 154,000 ZEVs in financial year 2026/27. The extent to which those ZEVs are additional is highly uncertain, and will be considered as part of future DfT evaluation alongside any wider benefits of the scheme.
- 2.24 The Assessment acknowledges that there is a risk that manufacturers may not pass through the full grant amount to consumers, particularly if they are already discounting vehicles. It notes that several have indicated that the discounts currently required to stimulate ZEV demand are unsustainable, and may therefore use the grant to reduce their own contribution to these discounts rather than lower prices further. However, it also states that evidence from previous schemes²⁵ suggests a high degree of pass through from manufacturers to consumers. The Assessment further states that early discussion with industry and fleets indicate a high or total degree of pass through. OZEV expects that the manufacturers' interest is to retail their vehicles at the lowest possible price point, thus increasing sales.
- 2.25 In our view, the Assessment explains how the Scheme would change certain aspects of the beneficiaries' behaviour and how the subsidy brings about changes that would not occur without it. In doing so, it explains how the Scheme will result in additional sales of ZEVs, and helpfully acknowledges that the Scheme will nonetheless support some ZEVs that would have been purchased in the counterfactual.
- 2.26 However, the Assessment should consider in more detail how the change in the manufacturers' behaviour will lead to a reduction of the upfront cost of ZEVs, which is the specific policy objective of the Scheme. It should therefore explain in more detail, with reference to relevant evidence, manufacturers' incentives to keep

²⁴ [Statutory Guidance](#), paragraphs 3.71–3.73.

²⁵ This is based on a price analysis where the grant eligibility limit was reduced in March 2020.

prices as low as possible, and pass through any grant to end-users. This could include explaining how competition and transparency in the market, as well as the potential for compliance payments for not meeting ZEV targets, discipline prices.

- 2.27 The Assessment could also consider the likely behavioural impact of the Scheme's sustainability criteria on manufacturers' incentives to produce ZEVs more sustainably, thereby reducing the risk of carbon leakage.

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

2.28 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.²⁶

Proportionality

2.29 The Assessment explains that the tiered grant amounts, £3,750 and £1,500, were defined by using DfT's car choice model, which draws on consumer preference data. It explains that different grant amounts and varying thresholds between the bands were tested to optimise the grant amounts and maximise additionality from the grant within anticipated budget constraints. The grant funding is specifically targeted at more affordable zero emission models, through the price cap for eligibility of £37,000. At the vehicle price cap at £37,000, the Assessment states that the upfront purchase cost price differential between a non-ZEV and new ZEVs was analysed to avoid over-subsidy.

2.30 The Assessment states that the Scheme is small relative to the overall size of fleets purchasers (such as leasing companies) and the overall size of vehicle manufacturers, assuming a reasonable worst case on pass-through for manufacturers. Whilst acknowledging uncertainty around estimates, the Assessment says that the Scheme is proportionate to the policy objective for both fleets purchasers and vehicle manufacturers.

2.31 The Assessment explains that there is no explicit maximum annual limit on the number of eligible orders that an individual manufacturer could receive. The Assessment further explains that, whilst individual manufacturers may have

²⁶ See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

eligible vehicles across several grant schemes, they cannot receive multiple subsidies for a vehicle.

2.32 In our view, the Assessment partially explains why the Scheme is proportionate and limited to the minimum necessary to achieve the policy objectives.

2.33 However, whilst the Assessment explains that the grant amounts were decided by reference to choice modelling, the Assessment should further explain what different grant amounts and price cap thresholds were tested within the choice modelling and the outcomes of such tests to establish that these are set at the minimum necessary to achieve the policy objective.

2.34 To place the Scheme into an appropriate context, the Assessment should set out the number of ZEVs covered by the Scheme relative to the number of all new electric vehicles and relative to the number of vehicles required by the ZEV Mandate.

Design of subsidy to minimise negative effects on competition or investment

2.35 The Assessment sets out several elements of the Scheme's design characteristics that are relevant to minimising competitive distortions, including:

- (a) the vehicle eligibility criteria are objective based on internationally recognised metrics²⁷ and the Scheme includes a review process to enable manufacturers to submit additional information in respect of the decarbonisation efforts, beyond the initial scoring methodology;
- (b) the Scheme is time limited;
- (c) the two-tiered grant amounts to fund a larger portion of the market than a singular grant amount thereby reducing the likelihood that manufacturers taking steps to decarbonise supply chains are unfairly excluded, whilst also encouraging manufacturer to go further in their efforts to decarbonise; and
- (d) provisions for reviewing and amending the grant criteria to reflect policy priorities, minimise market distortion and provide the best possible value for money for the taxpayer.

2.36 The Assessment states that OZEV will monitor vehicle pricing and discounts to assess the extent to which grant funding is passed through to consumers, and requires dealerships to produce invoices itemising the grant during any audit checks.

²⁷ See paragraph 1.8.

- 2.37 The Assessment also states that other methods of funding (subsidised loans and other non-subsidy options) have been considered and discounted.
- 2.38 In our view, the Assessment demonstrates how some of the design features of the Scheme contribute to minimising any negative effects on competition or investment. However, the Assessment could:
- (a) explain how the view was reached that the two-tiered grant amounts and associated decarbonisation requirements are sufficient to mitigate the distortion of competition for those manufacturers who have taken steps to decarbonise but have not yet met the eligibility criteria for the grant;
 - (b) further clarify how the eligibility rules will be applied in practice, for example by explaining the timeline for certifying new eligible vehicles. Also, it could set out the mechanism and criteria in place to determine when eligibility rules would be amended; and
 - (c) use existing data from previous schemes to support assertions and provide further detail on monitoring and review of the Scheme.

Assessment of effects on competition or investment

- 2.39 The Assessment refers to a number of markets: new electric vehicles, new combustion engines vehicles, used ZEVs and used cars generally (including both zero emissions and combustion engines). However, it focusses essentially on M1 vehicles (see footnote 4). It notes that alternatives to new ZEVs will be new internal combustion engine vehicles (also vehicles with hybrid technologies) or used ZEV or internal combustion engine cars generally – noting the reliance of the used car market on new vehicle sales. The Assessment notes that alternatives forms of passenger transport such as trains are highly unlikely to be affected by the Scheme.
- 2.40 The Assessment identifies the geographic dimension of the automotive sector as UK wide, noting that vehicles are consistently priced across the UK, and discounts offered are not related to geographic location.
- 2.41 The Assessment states that the Scheme may have an impact on another market – the charge point industry. The Assessment notes that an increase in demand for ZEVs is likely to lead to increased investment in the charge point industry.
- 2.42 The Assessment notes that there are 8 models in Band 1 (£3,750 subsidy) and 36 models in Band 2 (£1,500 subsidy).
- 2.43 Given the estimated number of vehicles supported, the value of total grant funding, and the targeted nature of the sustainability criteria, the Assessment states that

market distortions are expected. Those manufacturers that are offering both eligible and popular models expected to experience higher sales and revenue.

- 2.44 The Assessment identifies the following potential distortions, and notes if and how these are mitigated:
- (a) Adverse impact on manufacturers who do not produce ZEVs or produce lower volumes of qualifying ZEVs than other manufacturers, potentially losing market share. The Assessment notes there is no mitigation for this potential distortion within the policy design given the aim of the Scheme. The price cap for eligibility may exclude several manufacturers with no vehicles currently at or below this price point. The Assessment notes that there is no mitigation for this potential distortion as it is a proportionate aim to ensure support is targeted toward lower cost vehicles.
 - (b) Impact on manufacturers that lower their vehicle prices to £37,000 or below in order to benefit from the Scheme. These manufacturers may earn a lower profit margin, though the Assessment notes this may be mitigated by higher volumes of these cars being sold due to the lower price.
 - (c) Impact on vehicle manufacturers who have taken steps to reduce overall carbon emission in manufacturing but do not yet meet the threshold for eligibility. The Assessment notes that the Scheme's two tiers of grant amounts mitigate this distortion as set out above under Design of Subsidy.
 - (d) Prices of nearly new ZEVs may be impacted by the decrease in new ZEV prices to the extent that new vehicle retail prices are discounted in response to the grant (which is the aim of the Scheme). It may impact leasing companies in particular, as they may see steeper depreciation in newer second-hand vehicle asset values. The Assessment notes that price on used car sales may be impacted both in the near-term and in the longer term, as vehicles that benefitted from the grant are sold on the used market. The Assessment states that some companies may however benefit from increased demand for new leased vehicles which may arise as a result of the Scheme lowering new vehicle prices.
- 2.45 A third party submitted that the Scheme would have distortive effects in the market and harm wider competition and investment given that some manufacturers without eligible vehicles will not benefit from the Scheme and will therefore achieve fewer vehicle sales, as noted in the Assessment and set out in paragraph 2.44 above. They stated that the price cap for eligibility has been set within a highly competitive part of the market resulting in distortive effects on top of the existing distortion created by the ZEV Mandate. They proposed that one alternative would be to remove the price cap for eligibility and restrict the grant to one at a lower

level. They also submitted that there was a lack of prior consultation on the Scheme.

2.46 In our view, the Assessment identifies potential distortions but it should more systematically consider the relevant market and the competitive distortions listed in the Statutory Guidance. It should evidence the effect of the Scheme on competition or investment, in line with Annex 3 of the Statutory Guidance. To this end, the Assessment should include further analysis of:

- (a) current and potential ZEV competitors and their market shares;
- (b) which manufacturers of ZEVs are likely to benefit from the Scheme given the price threshold of £37,000; and
- (c) the specific manufacturers that will benefit from the Scheme compared to others, including their respective position on the market, and whether any competitive advantage arising for individual manufacturers could or should be mitigated.

2.47 The Assessment could also use existing data from previous/current schemes to the extent possible to provide an indication of the magnitude of likely impacts of the Scheme on competing manufacturers and competition.

Step 4: Carrying out the balancing exercise

2.48 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.²⁸

2.49 The Assessment sets out a number of positive outcomes associated with the Scheme, including:

- (a) quantifiable benefits include carbon savings, fuel and maintenance cost savings and air quality improvements;
- (b) assisting the UK Government in meeting legally binding carbon reduction targets and enabling the UK to contribute to global carbon reduction commitments;
- (c) stimulating economic growth by fostering innovation and helping to protecting jobs in the automotive sector and battery manufacturing supply chains, along with enhancing the UK's competitiveness in the global automotive industry by

²⁸ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

signalling support for the ZEV sector, potentially encouraging inward investment;

- (d) strengthening the business case for private sector investment in charging infrastructure for electric vehicles through increased demand;
- (e) supporting more equitable distribution of ZEVs; and
- (f) accelerating the ZEV transition in the used market.

2.50 The Assessment also notes several potential negative impacts of the Scheme, including:

- (a) the risk that car manufacturers will retain the grant and not pass this onto consumer;
- (b) manufacturers who lower vehicle prices to £37,000 or below in order to benefit from the Scheme may earn a lower profit margin on vehicles sold than if they had not reduced the vehicle's price;
- (c) some manufacturers may see reductions in sales across some new car models not eligible for the Scheme and some manufacturers may benefit more from the Scheme than others; and
- (d) residual values of nearly new ZEVs may fall in response to the lower new ZEV prices brought about by the Scheme.

2.51 The Assessment states that OZEV expects the positive outcomes to outweigh the potential negative impacts due to the expected significant environmental, economic, and social benefits of the Scheme. It also notes that any resulting negative distortions are expected to operate as an incentive for manufacturers to improve their offering of affordable ZEV models.

2.52 The Assessment discusses a number of monetised benefits and costs in support of the balancing exercise. A full cost-benefit analysis has been undertaken in line with HM Treasury Green Book guidance, noting that the number of additional ZEVs subsidised through the Scheme is highly uncertain.

2.53 In our view, the Assessment has set out a number of positive effects of the Scheme as well as potential negative impacts. However, the Assessment should more systematically demonstrate how OZEV has weighted the positive effects against the negative impacts to determine that the benefits of the Scheme outweigh the negatives particularly in the context of uncertainty in relation to the number of additional ZEVs subsidised by the Scheme.

2.54 As part of a more systematic consideration of the balancing exercise, the Assessment should consider the following:

- (a) the distributional impact of the Scheme, including whether some geographic areas of the UK will benefit more than others (eg from any resulting increase in ZEV production); and
- (b) the potential impact of the Scheme on international trade or investment.

Energy and Environment Principles

- 2.55 This section sets out our evaluation of the Assessment against the energy and environment principles.²⁹
- 2.56 OZEV has conducted an assessment of the Scheme against Principles A, B, and H. OZEV does not consider that any other energy and environment principles are relevant, and we have not identified any other principle that should have been addressed as part of the Assessment.

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

- 2.57 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.³⁰
- 2.58 The Assessment assesses the Scheme against the second limb of Principle A. It states that an uptake of ZEVs will lead to a reduction in GHG emissions, and therefore improved air quality, particularly in urban areas. The Assessment adds that the Scheme supports the ZEV Mandate which is expected to save approximately 416MTCO₂e (Million Metric Tons of Carbon Dioxide Equivalent) up to 2050, with a net present value of £39 billion - £119 billion for the economy. This will in turn lead to better public health outcomes and reduction in pollution-related harms.
- 2.59 The Assessment further states that:
- (a) the UK operates a ZEV Mandate which requires an increasing percentage of new vehicle sales to be zero emission each year up to 2035;
 - (b) environmental sustainability criteria will be introduced to promote more sustainable manufacturing;

²⁹ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

³⁰ [Statutory Guidance](#), paragraphs 4.19–4.28.

- (c) this in turn will further reduce UK GHG emissions; and
- (d) this therefore explains that the improved air quality achieved through the lowering of emissions as a result of the increase in ZEVs will lead to better public health outcomes and reductions in pollution-related harm.

2.60 The Assessment provides a clear statement that the Scheme encourages the adoption of ZEVs on a larger scale than could be expected without Government support. Accordingly, in accordance with the second limb of Principle A, the Scheme is likely to increase the level of environmental protection compared to the level that would be achieved in the absence of the Scheme.

2.61 In our view, the Assessment clearly explains and evidences how the Scheme complies with Principle A of the Energy and Environment Principles.

Principle B: Beneficiary’s liabilities as a polluter

2.62 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.³¹

2.63 The Assessment notes that there is no indication that the Scheme will relieve beneficiaries from any liabilities arising from their responsibilities as polluters. Specifically, the Assessment makes clear that the Scheme actively promotes and encourages production of vehicles that use sustainable energy to manufacture vehicles and batteries.

2.64 In our view, the Assessment clearly explains and evidences how the Scheme complies with Principle B of the Energy and Environment Principles.

Principle H: Subsidies for the decarbonisation of emissions linked to industrial activities

2.65 Subsidies for the decarbonisation of emissions linked to industrial activities should achieve an overall reduction in greenhouse gas emissions and reduce the emissions directly resulting from the industrial activities concerned.³²

2.66 The Assessment makes clear that, as reflected in Principle A of the Energy and Environment Principles and throughout the main assessment, the Scheme encourages a reduction in emissions on UK roads.

2.67 The Assessment focuses on the manufacturing processes for cars. Specifically, the Assessment explains that the Scheme ‘encourages a reduction in emissions

³¹ [Statutory Guidance](#), paragraphs 4.29–4.34.

³² [Statutory Guidance](#), paragraphs 4.60–4.68.

from vehicle manufacturing processes'. The Assessment then notes that the inclusion science-based targets criterion will lead manufacturers to align their manufacturing activities with climate science by setting independently verified emissions reduction targets, and that this will thereby encourage 'long-term decarbonisation'. The Assessment also flags that this effect may extend to overseas manufacturing in addition to UK manufacturing.

2.68 In our view, the Assessment clearly explains and evidences how the Scheme complies with Principle H of the Energy and Environment Principles.

Other Requirements of the Act

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

24 March 2026