

Subsidy Advice Unit Report on the Zero Emission Truck Grant and Zero Emission Van 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 Zero Emission Truck Grant (ZETG) and Zero Emission Van Grant (ZEVG) 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.
- 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 and evidences 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 and B.
- 1.6 However, we have identified the following areas for improvement. The Assessment should:
 - (a) clearly identify who the beneficiaries of the Scheme are (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) explain whether tax-based measures were considered as a possible option (Principle E);
- (d) better draw on available evidence to explain what would be likely to happen to the upfront cost of commercial 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 commercial ZEVs (Principle D);
- (e) further explain how the grant amounts, thresholds levels and caps for the schemes were determined to ensure that they 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);
- (f) include further analysis of what the relevant product market is, 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 from individual manufacturers could be mitigated. It should also consider how the difference in ZETG levels between GB and Northern Ireland may impact competition or investment within the UK (Principle F);
- (g) explain how OZEV has weighted qualitative positive effects against the negative impacts to determine that the benefits of the Scheme outweigh the negatives when considered alongside the cost-benefit analysis. As part of this balancing exercise, it should consider the distributional impact of the Scheme and its impact on international trade or investment (Principle G); and
- (h) clearly identify the industrial activities that the Scheme seeks to decarbonise, and discuss in further detail how it will achieve an overall reduction of greenhouse gas (GHG) emissions, also considering embodied emissions⁴ (Energy and Environment Principle H).

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 applied as a direct discount on the purchase price of commercial ZEVs, including vans and heavy goods vehicles (HGVs). The

⁴ Embodied emissions are the overall carbon produced from the product's whole lifecycle, including manufacturing and assembly processes, and transporting the product to its point of sale.

Scheme applies only to commercial ZEVs which meet specific technical criteria.⁵ The grant will only be payable by OZEV to the manufacturer or third parties approved by the manufacturer to market the vehicle under a separate commercial trade or brand names. Dealers, or other authorised intermediaries, will apply the grant to customers at the point of purchase directly from the dealer or manufacturers' representative.

- 1.9 The Scheme will provide the following level of grants in the financial year 2026/2027:
- (a) large vans will receive a grant of up to £5,000 and small vans of up to £2,500 in the whole UK.
 - (b) In Great Britain, new trucks will receive a grant of up to 40% of the cost, subject to caps⁶ determined by truck weight.
 - (c) In Northern Ireland, small and medium sized businesses will receive up to 40% of the price differential between zero emission trucks and diesel equivalents, and large organisations up to 30%.
- 1.10 Both the amount of grant and criteria for each category may be subject to change at the discretion of OZEV.⁷
- 1.11 The Scheme will run from 1 April 2026 up to 31 March 2030, or until budgets are exhausted (the total budget is £877 million). It will build on existing van and truck grants first introduced in 2012 and 2016, the Plug-In Van Grant and Plug-in Truck Grant.⁸
- 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 sector and will allow for the

⁵ See [Electric and hybrid vehicles eligible for a plug-in grant: Vans - GOV.UK](#) and [Electric and hybrid vehicles eligible for a plug-in grant: Trucks - GOV.UK](#). These include vehicle type, requirement for vehicles to have zero tailpipe Co2 emission limits, a zero emission range of 60 miles or greater, warranties for the vehicle, battery or fuel cell and evidence of electrical, crash and hydrogen safety.

⁶ OZEV explains that from the financial year 2026/27 onwards, they are proposing caps on the number of grants each end user can receive. For example, 1,500 vans under the plug-in van grant per end customer (ie the fleet, business or individual buying the vehicle) per financial year and 100 trucks per end customer per financial year under the plug-in truck grant.

⁷ For example, the smallest HGVs (rigid >4.25-12t) will be eligible for up to £15,000 from April 2026, down from £20,000 previously. For larger trucks from April 2026, the cost differential is higher, so the caps are £37,000 (down from £60,000) for large trucks weighing 12-18t; £52,000 (down from £80,000) for large trucks weighing 18-26t; and £81,000 (down from £120,000) for articulated vehicles weighing >26 tonnes.

⁸ The Plug-in Van Grant was launched in 2012 to help bridge the price gap between the cost of ultra-low emission vans and diesel vans. It was extended to trucks ie HGVs in 2016. Further information is available at [Plug-in van and truck grant: eligibility and applications - GOV.UK](#).

provision of one or more subsidies during the lifetime of the Scheme to be given to beneficiaries which may exceed £5 million.⁹

⁹ 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.¹⁰

Policy objectives

2.3 The Assessment states that the policy objective of the Scheme is to reduce the upfront costs of commercial ZEVs that meet specific technical criteria, making them more accessible to a broader range of purchasers. The Assessment explains that the financial incentives provided through the Scheme will help to bridge the price difference between zero emission models and those powered by internal combustion engines. The Assessment explains that the Scheme will help achieve the Government's ZEV Mandate,¹¹ which is described as the single largest carbon saving measure in Government.

2.4 The Assessment further explains that lower upfront costs will enable businesses to build an investment case to transition to zero emission alternatives, which will increase their uptake and reduce the number of diesel commercial vehicles overall, resulting in a fall in emission overtime. The Assessment states that it will also facilitate future reductions in the costs of commercial ZEV due to increasing economies of scale.

2.5 The Assessment also sets out further benefits stemming from the policy objective, including:

¹⁰ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

¹¹ 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.

- (a) ensuring strong consumer demand for commercial ZEV;
- (b) supporting economic growth by sending a strong signal that the UK Government is invested in the zero emission HGV transition;
- (c) supporting a more equitable distribution of commercial ZEV;
- (d) supporting a reduction in GHG emissions, and harmful air and noise pollution from the UK's commercial vehicle fleet;
- (e) supporting wider societal benefits such as beneficial public health outcomes; and
- (f) supporting the development of a well-stocked used commercial ZEV market.

2.6 These measures will complement the Government's wider policy objectives linked to delivering its clean energy and growth missions and its legal obligations to meet zero and interim Carbon Budgets established under the Climate Change Act 2008.¹²

2.7 In our view, the Assessment clearly describes 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

2.8 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.¹³

2.9 The Assessment describes the following market failures:

- (a) Negative externalities, arising from the exhaust emissions of petrol and diesel vehicles, where the 'damage caused by these emissions fall on general society' in the form of air pollution and climate change.¹⁴
- (b) Coordination failure, where businesses, vehicle manufacturers, infrastructure suppliers, and transmission and distribution network operators need to work together and at pace, but each has an incentive to wait for the others before committing to action. The Assessment explains that the Government is

¹² 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.

¹³ [Statutory Guidance](#), paragraphs 3.36–3.51.

¹⁴ OZEV explains that reducing emissions from road freight transport will contribute significantly to the Governments wider Net Zero objectives. For example, transport is the largest contributor to the UK's domestic GHG emissions with road traffic alone accounting for approximately a quarter of total emissions in 2023 (and HGVs contributing 16% of UK road transport GHG emissions).

working in multiple areas to resolve this coordination problem. The Scheme will contribute to this by creating demand side incentives needed for the transition to commercial ZEVs.

- 2.10 The Assessment recognises that funding alone will not be enough to provide the sector with the incentive to switch, investment in the deployment of commercial ZEVs and their charging infrastructure could work in concert with supportive regulatory framework, demand levers, and infrastructure measures.
- 2.11 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

- 2.12 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.¹⁵
- 2.13 The Assessment explains that OZEV has considered the following means to achieve the policy objective:
- (a) **Regulation.** The Assessment discusses the ZEV Mandate targets and their relationship to achieving Carbon Budgets 6 and 7.¹⁶ It also sets out a range of regulatory instruments which support the Government's commitment to phasing out all non-zero emission vans by 2035.
 - (b) **Loan and leasing schemes.** This was not deemed an appropriate option due to potentially high administration costs to implement a low or 0% interest scheme, as well as the assessed lack of market failure in the area of finance availability, combined with the potential for negative impacts.
- 2.14 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 commercial ZEVs, stimulating demand and accelerating the pace of the ZEV transition. It explains that grant support via the previous version of the Scheme (the Plug-in Van Grant and Plug-in Truck Grant, see footnote 8) has been important to making the economic case for purchasing zero emission vans.
- 2.15 The Assessment demonstrates that OZEV have considered alternative options to subsidy. However, it should explain whether tax-based measures were also considered as a possible option.

¹⁵ [Statutory Guidance](#), paragraphs 3.57–3.59.

¹⁶ [Carbon Budgets](#).

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.¹⁷

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).¹⁸
- 2.18 The Assessment sets out a counterfactual scenario where, without the continuation of grants for ZEV vans and trucks, barriers to the uptake of commercial ZEVs will not be addressed. The Assessment explains that the Department for Transport has used total cost of ownership (TCO) modelling to compare the cost of purchasing a commercial ZEV versus a diesel equivalent with and without grant support. The Assessment states that, without the Scheme, the TCO gap between commercial ZEVs and diesel equivalents would not be closed, which would have adverse consequences on the uptake of commercial ZEVs.
- 2.19 The Assessment states that, for vans, if consumer demand fails to match the level needed to meet ZEV Mandate compliance, manufacturers may need to either choose to pay the required compliance payment¹⁹ or reduce the overall numbers of new vehicles sold to deliver the percentage of new vehicles sold that are electric. For trucks, it notes that the take up for the existing Plug-In Truck Grant was extremely low before a temporary increase in the grant levels from January 2026.
- 2.20 The Assessment states that, if the identified barriers to the uptake of commercial ZEVs are not addressed, the transition will be delayed, resulting in continued higher levels of GHG emissions, along with air and noise pollution. It states that this will also make the end of sale dates for new non-zero emission vans and

¹⁷ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

¹⁸ [Statutory Guidance](#), paragraphs 3.63–3.65.

¹⁹ 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 required compliance payment is currently set at £15,000 per electric van short of the target.

HGVs more challenging to achieve, potentially leaving a market which is not sufficiently mature to meet those dates.

- 2.21 In our view, while the Assessment partially describes what would likely happen if the Scheme was not implemented, it should also:
- (a) better draw on available evidence to explain what would likely happen to the upfront cost of commercial 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

- 2.22 Subsidies must bring about something that would not have occurred without the subsidy.²⁰ 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').²¹ 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.²²
- 2.23 The Assessment explains that it expects the Scheme to drive ZEV uptake. In support of this statement, it notes that that take up of the existing Plug-in Truck Grant has been just high enough to deliver the uptake required to meet the ZEV Mandate with the current level of grants in place but was very low before an uplift in January 2026. It also outlines how subsidies have been shown to effectively drive ZEV uptake in analysis of previous grants. In addition, it states that the grant held strong signalling value, indicating the Government's confidence and commitment to ZEVs.
- 2.24 The Assessment explains that the grant amounts for HGVs and vans have been designed to ensure that a commercial business case can be made for these vehicles using modelling which compares the cost of purchasing a commercial ZEV versus a diesel equivalent. The Assessment states that the Scheme has been initially projected to support an estimated 270,000 zero emission vans and 19,000 zero emission HGVs by closing the TCO gap. The precise number supported will be dependent on future grant design decisions and the evolution of ZEV markets.
- 2.25 The Assessment acknowledges that manufacturers may not pass through the full grant amount, particularly if they are already discounting vehicles. It notes that

²⁰ [Statutory Guidance](#), paragraph 3.67.

²¹ [Statutory Guidance](#), paragraphs 3.66–3.70.

²² [Statutory Guidance](#), paragraphs 3.71–3.73.

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 schemes suggests a high degree of pass through from manufacturers to consumers. OZEV expects that it is in the interest of manufacturers to retail their vehicles at the lowest possible price point, thus increasing sales.

- 2.26 In our view, the Assessment explains how the Scheme would change certain aspects of the beneficiaries' behaviour. However, the Assessment should consider in more detail how the manufacturers' change in behaviour will lead to a reduction of the upfront cost of commercial 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 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 commercial ZEV targets), discipline prices.

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

- 2.27 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.²³

Proportionality

- 2.28 The Assessment outlines, for both the ZEVG and the ZETG, that the grant amounts have been designed to ensure that a commercial business case can be made for ZEVs, using TCO modelling. This modelling considers upfront cost, interest payments, fuel cost, maintenance costs and taxes and considers how, with the grants in place, commercial ZEVs are comparable or cheaper than diesel equivalents.
- 2.29 The Assessment explains that the Scheme is small relative to the overall size of commercial vehicle haulage companies and vehicle manufacturers. Whilst

²³ See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

acknowledging uncertainty around estimates, the Assessment states that the Scheme is proportionate to the policy objective.

- 2.30 The Assessment states that caps on the number of vans or trucks per end customer per financial year ensure that no one end user company can accumulate too much benefit from the grants.
- 2.31 The Assessment also explains that, whilst individual manufacturers may have eligible vehicles across several grant schemes, they can't 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 Whilst the Assessment explains that the grant amounts were decided by reference to the TCO modelling, the Assessment should explain in more detail:
- (a) how the grant amounts, thresholds levels and caps were determined to ensure that these are set at the minimum necessary to achieve the policy objective and how the TCO calculations (upfront costs, other costs such as interest payments, fuel cost, maintenance costs and taxes) interlink with the grant amount thresholds which are set as a proportion of the vehicle price; and
 - (b) how ZETG levels in Great Britain, as a proportion of the truck price, and in Northern Ireland, as a proportion of the price differential with diesel equivalents, are both proportionate.
- 2.34 To place the Scheme into an appropriate context, the Assessment should set out the number of commercial ZEVs covered by the Scheme relative to the number of all new electric commercial vehicles and relative to the number of commercial vehicles required by the ZEV Mandate for vans.

Design of subsidy to minimise negative effects on competition or investment

- 2.35 The Assessment sets out several elements of the Scheme design characteristics that are relevant to minimising competitive distortions, including:
- (a) broad set of potential recipients - being available to any customer purchasing an eligible zero emission van or truck;
 - (b) the vehicle eligibility criterion is objective;
 - (c) the Scheme is time limited;
 - (d) a wide geographic spread across the UK (notwithstanding the differences in grant amounts in Great Britain vs Northern Ireland for the ZETG);

- (e) 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; and
- (f) increasing the number of zero emission HGV weight categories from two to four.

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.

2.37 The Assessment also states other methods of funding (subsidised loans) have been considered and discounted.

2.38 In our view, the Assessment demonstrates how the design features of the Scheme contribute to minimising any negative effects on competition or investment. However, the Assessment could:

- (a) further clarify how the eligibility rules will be applied in practice, for example by explaining the timeline for certifying new eligible vehicles. It could also set out the mechanism and criteria in place to determine when eligibility rules would be amended.
- (b) use existing data from previous schemes to support assertions and providing further detail on monitoring and reviews of the Scheme.

Assessment of effects on competition or investment

2.39 The Assessment refers to the section of the automotive sector that manufactures and sells N1, N2 and N3 vehicles.²⁴ It also refers to the commercial ZEV industry and notes that alternative modes of transport of goods such as rail or sea are sufficiently differentiated and unlikely to be affected by the Scheme.

2.40 The Assessment does not identify the geographic market but notes that being open to all vehicles that meet the eligibility criteria means that the Scheme will have a wide geographic spread across the UK, noting the difference in grant amounts in Great Britain versus Northern Ireland.

2.41 The Assessment notes that the Schemes are demand-led and available to any customer purchasing an eligible zero emission van or truck which helps to disperse distortive effects. It notes that grant amounts, eligibility criteria and the

²⁴ N1 – not exceeding 3.5 tonnes, typically referred to as vans, N2 – exceeding 3.5 tonnes but no exceeding 12 tonnes, typically referred to as trucks or HGVs and N3 – exceeding 12 tonnes, typically referred to as trucks, lorries or HGVs.

vehicles eligible can be amended to minimise market distortion, as well as to reflect policy priorities and provide best value for money for the taxpayer.

- 2.42 The Assessment identifies Daimler, Scania and DAF as manufacturers with commercially available electric vehicles.
- 2.43 The Assessment identifies the following potential distortions:
- (a) Manufacturers selling commercial ZEVs that meet the eligibility criteria may sell more vehicles than those who do not offer those vehicles. There is no mitigation proposed for this given the aim of the Scheme is to increase the volume of commercial ZEVs; and
 - (b) Prices of nearly new commercial ZEVs may be impacted by the Scheme due to substitutability between purchasing new and nearly new vehicles. This could impact leasing companies in particular due to potential sharper depreciation in newer second-hand vehicle values. This may be mitigated for some companies by the increased demand for new leased vehicles arising from the Schemes. The Assessment notes that the market for used HGVs is currently very small, and used market values will continue to be monitored.
- 2.44 In our view, the Assessment identifies potential distortions but it should more systematically consider the relevant market, identify the main beneficiaries of the Scheme and consider the extent of the competitive distortions listed in the Statutory Guidance. The Assessment 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) what is the relevant product market;
 - (b) 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 from individual manufacturers could be mitigated; and
 - (c) the Assessment should consider how the difference in ZETG levels between GB and Northern Ireland may impact competition or investment within the UK.
- 2.45 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

2.46 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.²⁵ 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;
- (c) attracting investment and supporting high-skilled jobs, along with enhancing the UK's competitiveness in the global automotive industry by building on existing investment in UK manufacturing and battery supply chains;
- (d) strengthening the business case for private sector investment in charging infrastructure for electric vehicles through increased demand;
- (e) supporting more equitable distribution of commercial ZEVs; and
- (f) supporting the used commercial ZEV market.

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

- (a) the risk that commercial vehicle manufacturers will retain the grant and not pass this onto consumers;
- (b) manufacturers that do not offer commercial ZEVs may see reductions in sales, and manufacturers selling commercial ZEVs may see higher sales; and
- (c) residual values of nearly new commercial ZEVs may fall in response to the lower new commercial ZEV prices brought about by the Scheme.

2.48 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.

2.49 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. It notes that the grant is estimated to

²⁵ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

deliver **very high** value for money, as commercial vehicles are at an earlier stage of availability than cars and there is relatively high additionality.

- 2.50 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 demonstrate how OZEV has weighted the qualitative positive effects against the negative impacts to determine that the benefits of the Scheme outweigh the negatives when considered alongside the cost-benefit analysis.
- 2.51 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 commercial ZEV production, and considering the different ZETG levels between GB and Northern Ireland); and
 - (b) the potential impact of the Scheme on international trade or investment.

Energy and Environment Principles

- 2.52 This section sets out our evaluation of the Assessment against the energy and environment principles.²⁶
- 2.53 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

- 2.54 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
- 2.55 The Assessment assesses the Scheme against the second limb of Principle A. It states that an uptake of commercial ZEVs will lead to a reduction of GHG emissions and improved air quality, particularly in urban areas. It explains that this

²⁶ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

²⁷ [Statutory Guidance](#), paragraphs 4.19–4.28.

will, in turn, lead to better public health outcomes and reductions in pollution-related harm.

- 2.56 The Assessment states that the Scheme encourages the adoption of commercial ZEVs on a far 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.
- 2.57 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

- 2.58 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.²⁸
- 2.59 The Assessment notes that there is no indication that the Scheme will relieve beneficiaries from any liabilities arising from their responsibilities as polluters.
- 2.60 The Assessment further notes that the Scheme actively encourages the adoption of technologies that provide greater environmental protection.
- 2.61 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

- 2.62 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.²⁹
- 2.63 The Assessment sets out that the Scheme will achieve an overall reduction in GHG emissions and reduce the emissions directly resulting from the industrial legacy activities. It notes that the tiered levels of subsidy for HGVs, based on the weight of the vehicle, means those that currently emit the highest amount of pollution will receive the highest level of financial support.
- 2.64 In our view, the Assessment should better explain why Principle H applies to this Scheme. In particular:

²⁸ [Statutory Guidance](#), paragraphs 4.29–4.34.

²⁹ [Statutory Guidance](#), paragraphs 4.60–4.68.

- (a) the Assessment should clearly identify the industrial activities that the Scheme seeks to decarbonise, considering the absence of sustainability criteria relating to the manufacturing of eligible commercial ZEVs; and
- (b) to the extent that OZEV considers that the relevant industrial activities are the transport activities of purchasers of commercial ZEVs, the Assessment should discuss in further detail how it will achieve an overall reduction of GHG emissions, also considering embodied emissions.³⁰

Other Requirements of the Act

2.65 The Assessment 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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³⁰ See footnote 4 above.