Subsidy Advice Unit Report on the Scottish Zero Emission Truck Fund

Referred by Transport Scotland

29 September 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority

CONTENTS

1. The Referral

1.1 On 24 August 2026, Transport Scotland requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to the Scottish Zero Emission Truck Fund (the Scheme) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates Transport Scotland'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 any relevant information submitted by third parties.

1.3 This report is provided as non-binding advice to Transport Scotland. 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, Transport Scotland has considered in detail the compliance of the Scheme with the subsidy control and energy and environment principles. In particular, the Assessment:

(a) clearly identifies and evidences the market failures that the Scheme seeks to address;

(b) sets out a well evidenced counterfactual which takes into account relevant factors including other subsidies; and

(c) comprehensively considers which of the Energy & Environment principles are relevant.

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

(a) address how the Scheme will incorporate into its design the analysis set out in the Assessment to identify and exclude beneficiaries that would likely have

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed Scottish Zero Emission Truck Fund Scheme by Transport Scotland - 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.

proceeded to invest in zero emission vehicles/charging infrastructure without a subsidy within the same timeframe (Principle C);

(b) as part of the competition assessment (Principle F):

(i) consider the impacts on competition of the consortia model and how any identified risks are mitigated, in particular the potential for the Scheme to concentrate awards among larger operators or better-resourced consortia and any increased risk of collusion;

(ii) more closely follow Annex 3 of the Statutory Guidance with respect to market characteristics by including a fuller articulation of the market context and analysis of geographic markets and impacts; and

(iii) give further consideration to the potential for distortions to arise as a result of differences between the Scheme and other relevant UK subsidies; and

(c) in the balancing exercise (Principle G):

(i) explain how it has weighted positive effects against negative impacts to reach its conclusions; and

(ii) address whether there may be any negative effects on international trade or investment.

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

The referred scheme

1.8 The Scottish Zero Emission Truck Fund is a subsidy scheme proposed by Transport Scotland to support the purchase or lease of zero emission heavy goods vehicles (HGVs) and the development of associated charging infrastructure in Scotland.

1.9 The Scheme has a budget of up to £240 million over five financial years with an initial funding round of up to £110 million between financial years 2027/28 and 2029/30.

(a) Grants for vehicles will cover the difference in cost between traditional and zero emission HGVs. The amounts available will vary by vehicle weight and fleet size, with maximum subsidy rates for the first ten vehicles in a fleet ranging from £20,000 for vehicles between 7 and 12 tonnes to £100,000 for vehicles over 26 tonnes. Lower subsidy rates would apply to additional vehicles.

(b) Grants for depot and en-route charging infrastructure will cover up to 50% of eligible costs (such as for charging equipment, civil and enabling works, cabling, grid connections, battery storage and small-scale renewable generation) subject to caps.

1.10 Funding will only be available to consortia.[4] Consortia can be made up of financiers, hauliers, energy companies including charge point operators, manufacturers and others, but must at a minimum involve one organisation providing private finance and four HGV operators. An HGV operator can only be a member of one consortium. The proposed vehicles and infrastructure must be based in Scotland for the duration of the project (although vehicles may operate outside of Scotland in the course of normal activity).

1.11 Funding will be awarded through a competitive process with applications assessed against strategic objectives, deliverability and the extent of private finance leverage. Grants will be subject to performance requirements (including vehicle deployment, charging or fuelling infrastructure installed and utilisation), monitoring and clawback provisions.

1.12 Transport Scotland stated that the Scheme is a Scheme of Particular Interest because it will benefit enterprises engaged in the manufacture of motor vehicles (SIC code 29.10), both as direct and indirect recipients. The manufacture of motor vehicles is defined as a sensitive sector for the purposes of the Act; subsidies granted in sensitive sectors are Subsidies or Schemes of Particular Interest if they are over £5million.[5] As funding will go in the first instance to one or more consortia, Transport Scotland considers that the £5 million threshold is likely to be breached.

[4] The Assessment notes that that this approach is based on the experience of using similar consortia in the second phase of the Scottish Zero Emission Bus Challenge Fund. The use of consortia proved successful in limiting the amount of subsidy required per vehicle, encouraging the participation of new suppliers of services to the Scottish market, and accelerating the transition to the point where Scotland is significantly ahead of the UK average in the adoption of zero emission buses, with an increasing proportion of the transition not requiring subsidy.

[5] 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 Transport Scotland.

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 Scheme is to develop an initial market for zero emission HGVs and the associated charging infrastructure in Scotland. The Scheme is one element of a wider HGV Decarbonisation programme, which aims to reduce Scottish greenhouse gas emissions by replacing diesel HGVs with zero emission vehicles.

2.4 The Scheme will help bridge the price difference between traditional and zero emission HGVs and support the development of associated charging infrastructure to generate the collaboration, evidence and momentum required for mass transition to zero emission HGVs in Scotland.

2.5 In our view, the Assessment clearly describes and evidences the specific policy objective of the Scheme.

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

Market failure

2.6 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make decisions that are financially rational for themselves, but not socially desirable.[7]

2.7 The Assessment explains that the Scheme has been designed to address two market failures:

(a) Negative externalities: Diesel HGVs impose costs on society through carbon dioxide emissions and local air pollution, resulting in negative externalities. These costs are not fully incorporated into diesel fuel or haulage prices, making diesel operations cheaper than zero emission alternatives and leading businesses to invest less in zero emission vehicles and infrastructure than is desirable. The Assessment draws on evidence from the haulage, finance and energy sectors which demonstrates that the cost of purchasing and running zero emission HGVs is currently higher than that of diesel HGVs.[8]

(b) Co-ordination failures: Operators are reluctant to acquire zero emission HGVs without adequate charging or fuelling infrastructure, particularly for longer journeys. Meanwhile, infrastructure providers are reluctant to invest without sufficient vehicles to provide predictable utilisation and revenue.[9] This results in underinvestment on both sides of the market, despite the longer-term societal benefits of transition. Transport Scotland provides analysis from a range of parties including the Green Finance Institute and the haulage sector to support the existence of this market failure.

2.8 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.

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[7] Statutory Guidance, paragraphs 3.36–3.51.

[8] The Assessment also notes that there are correlating positive externalities addressed, although not targeted, by the Scheme. The health and climate benefits arising from increasing zero emission HGVs are not captured by haulage businesses, which leads to underinvestment in vehicles and charging infrastructure.

[9] The Assessment additionally notes that finance for zero emission HGVs is hard to acquire as the current low number of zero emission HGV vehicles sold means financial providers lack sufficient data on vehicle performance, depreciation, residual values, maintenance costs and secondary markets to price risk confidently. Many mainstream financiers therefore do not offer finance for zero emission HGVs and those specialist financiers that do are likely to charge higher interest rates. Further, the Assessment notes that the costs of early investment are concentrated on the first investors, while the benefits are dispersed among future operators and wider society. This weakens incentives to invest during the initial stage of the transition.

Appropriateness

2.9 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.[10]

2.10 The Assessment sets out an extensive list of other policy options considered by Transport Scotland to achieve the policy objective, including loans, regulation, tax incentives, alternative financial instruments, public sector delivery models and others. It explains these options were discounted because they were not considered deliverable within the next carbon budget or would not address both market failures. The Assessment concludes that subsidy is the most appropriate mechanism with which to address the identified market failures at this stage of market development.

2.11 The Assessment provides a thorough explanation of the deliverability of the alternative policy options and states whether each option would address the two identified market failures. However, it does not explain and, where appropriate, evidence the reasoning for this position (eg why Ultra Low Emission Zones are not considered a sufficient disincentive to stimulate zero emission HGV uptake levels and therefore would not compensate the negative externalities).

2.12 In our view, the Assessment demonstrates that Transport Scotland has considered a range of other ways of achieving its policy objective. However, the Assessment could more clearly explain and, where appropriate, evidence the conclusions reached for each option on whether they would have addressed the identified market failures.

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

2.13 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.[11]

[10] Statutory Guidance, paragraphs 3.5r–3.59.
[11] See Statutory Guidance, paragraphs 3.60–3.74 and the SAU Guidance, paragraphs 3.11–3.13 for further detail.

Counterfactual

2.14 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).[12]

2.15 The Assessment sets out a counterfactual scenario where, absent the Subsidy, HGV operators will continue to use diesel HGVs rather than zero emission HGVs. This is due to the high upfront costs of zero emission vehicles compared to diesel counterparts, the complexity and cost involved in installing charging infrastructure, customer unwillingness to pay a premium for haulage services using zero emission HGVs, and the few financial products available to fund investment. The Assessment bases its conclusions on:

(a) analysis of the total cost of ownership (TCO) of HGVs over a five-year period demonstrating the higher costs of zero emission HGVs compared to diesel HGVs;

(b) industry reports analysing the costs of installing charging equipment;

(c) on discussions with industry about current investment priorities; and

(d) the impact of similar subsidies (and their withdrawal) internationally.

2.16 The Assessment notes evidence that some decarbonisation may occur even without the Scheme, particularly through existing UK Government support for zero emission HGVs and charging infrastructure.[13] However, it argues that this would not be at the pace or scale required to meet Scotland's climate change targets.[14]

2.17 In our view, the Assessment thoroughly considers and evidences what would be likely to happen if the Scheme was not implemented, in particular considering, with supporting data, how market factors may evolve and contribute to the achievement of policy objectives.

Changes in economic behaviour of the beneficiary and additionality

2.18 Subsidies must bring about something that would not have occurred without the subsidy.[15] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe

[12] Statutory Guidance, paragraphs 3.63–3.65.
[13] The Zero Emission Truck and Van Grants and the Depot Charging Scheme; Zero emission vehicles eligible for a grant: Trucks - GOV.UK; Depot Charging Scheme.
[14] Scotland's net zero target year is 2045, which is 5 years sooner than the 2050 UK Government target. The Assessment states that nearly all road vehicles should be zero emission by 2040.
[15] Statutory Guidance, paragraph 3.67.

without the subsidy ('additionality').[16] 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.[17]

2.19 The Assessment considers how the Scheme will change the economic behaviour of the different types of beneficiaries:

(a) The support for HGV operators will reduce both the higher upfront cost and total cost of ownership (through subsidising the installation of charging infrastructure) of zero emission HGVs compared to diesel HGVs, making acquisition or leasing more attractive. It also sets out how demand aggregation and risk sharing through the adopted consortia model could lower vehicle prices and finance costs.[18] The Assessment argues that these effects will bring forward purchases of zero emission HGVs in Scotland beyond what would be expected absent the Scheme.

(b) Finance providers will, through their participation in consortia, obtain at a faster pace than otherwise would be the case the data needed to price risk and develop more competitive products after the Scheme ends.

(c) Investment from charging infrastructure providers and depot owners will be more viable where high hardware, civil engineering and grid-connection costs, together with uncertain utilisation, would otherwise prevent investment and delivery. The Assessment uses a range of evidence including industry cost analysis and scenario modelling looking at different factors that affect the type of charging infrastructure needed.

2.20 The Assessment further explains that the proposed activity funded by the Scheme is additional because the targeted costs and activities fall outside normal haulage operations. Vehicle support only covers the extra cost of zero emission vehicles over diesel equivalents, leaving operators to fund an amount comparable to their normal vehicle expenditure. Infrastructure support would cover zero emission items only, such as fuelling equipment, cabling, enabling works and grid connections. Project management support would compensate consortium leads for additional co-ordination, grant administration and SME support activities only in relation to subsidised activities. The Assessment sets out that activities already receiving funding through other UK subsidies will not be eligible for funding from this Scheme, even where that other funding only partially covers the relevant costs.

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[16] Statutory Guidance, paragraphs 3.66–3.70.
[17] Statutory Guidance, paragraphs 3.71–3.73.
[18] The Assessment cites evidence from a UK demonstration project in which negotiation associated with a larger order reduced the base price of 44-tonne trucks.

2.21 In our view, the Assessment clearly explains and evidences how the subsidy would change beneficiaries' economic behaviour and that the Scheme brings about changes that would not have occurred absent the subsidy.

2.22 The Assessment also clearly sets out those costs and activities which would fall outside of the Scheme and how such activities might be identified. However, the Assessment should also explain how the design of the Scheme incorporates this constraint, to ensure that beneficiaries who may, absent the Scheme, have purchased zero emission HGVs and/or installed charging equipment, are identified and excluded.[19]

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

2.23 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

2.24 The Assessment discusses the size of the Scheme in the context of the wider transition of Scottish HGVs and the estimated overall investment required to decarbonise the haulage sector. The Assessment estimates that the first round would support around 500 to 550 vehicles, less than 5% of new Scottish HGV registrations over the relevant period, while the maximum value of the Scheme (£240 million) would represent less than 3% of the estimated investment required to transition the entire Scottish HGV fleet.

2.25 The Assessment explains how the subsidy rates, caps and eligible costs have been informed by TCO analysis, market engagement and comparisons with other UK schemes. It states that support will be limited to transition-related capital costs and will not cover ongoing operating expenditure. Vehicle support applies only to the additional cost of a zero-emission HGV over its diesel equivalent, while operators remain responsible for ordinary fleet replacement and other business-as-usual costs. The Assessment also sets out maximum amounts by vehicle weight, reduced support after the first

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[19] For example, see Statutory guidance, paragraphs 16.35 to 16.39.
[20] See Statutory Guidance paragraphs 3.75–3.112 and the SAU Guidance, paragraphs 3.14–3.18 for further detail.

ten vehicles per operator, caps on infrastructure and project management support, and the possibility of higher scores for bids seeking less than the maximum subsidy.

2.26 In our view, the Assessment demonstrates and evidences that the Scheme is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance. In particular, the Assessment clearly sets out how the Scheme's design features – including its rates, caps and monitoring arrangements – contribute to ensuring that the Scheme is proportionate and limited to what is necessary.

Design of subsidy to minimise negative effects on competition and investment

2.27 The Assessment explains that funding will be allocated through an open competitive process scored against criteria aligned with the Scheme's objectives, deliverability and financial considerations. It states that applicants must meet minimum deliverability requirements and that the subsidy rates and amounts are maximums rather than automatic entitlements.

2.28 The Assessment also explains how the consortium model is intended to improve coordination and spread benefits across HGV operators, finance providers, manufacturers and infrastructure providers; in particular through the membership requirements for each consortium. The Assessment also emphasises that the Scheme is intended to encourage SME fleet operators to participate, consistent with the stated policy objective of supporting SME involvement in the transition to zero-emission HGVs. While SME participation is not mandatory, consortia that demonstrate stronger support for SMEs are likely to receive higher scores on their application.

2.29 The Assessment sets out further safeguards built into the Scheme, including subsidy caps and tapering, restrictions on eligible costs, disclosure of other public funding, prevention of duplicate funding, incentives for shared infrastructure, monitoring of delivery and market developments and potential clawback. It also notes that funding is not limited to particular vehicle manufacturers or technologies and that purchasing decisions remain with consortia, to preserve commercial choice and competition between suppliers. The Scheme is also time limited, with the first round of subsidy awards running from April 2027 to March 2030, and the Scheme ending no later than March 2032.

2.30 The Assessment considers the interaction between the Scheme and other, UK-wide subsidies, noting that eligible costs cannot already benefit from other subsidies.

2.31 The Assessment acknowledges that grants can be more distortive than some other forms of financial assistance. It explains why alternative forms of support were not considered suitable for the initial phase, given the early stage of the market and the need to make progress within the relevant carbon budget period.[21]

2.32 In our view, the Assessment demonstrates and evidences how design features of the Scheme contribute to minimising certain negative effects of the Scheme on competition and investment within the United Kingdom.

2.33 However, the Assessment should further consider the impacts on competition of the consortia model, in particular:

(a) better explain how the Scheme will support a broad range of operators and mitigate the risk that awards become concentrated among larger operators or better-capitalised consortia, strengthening their position relative to SMEs. Although the Assessment notes that 90% of Scottish HGV operators have ten vehicles or fewer, it could support this with more evidence on vehicle distribution among larger operators and how many HGVs they are individually likely to replace through the first-round allocation of 550 vehicles; and

(b) include consideration of whether there is an increased risk of collusion given the nature of the Scheme involves some collaboration between companies at the same level of the supply chain, and set out what elements of the Scheme mitigate for this.

Assessment of effects on competition or investment

2.34 The Assessment identifies a broad range of direct and indirect beneficiaries – including HGV operators, charge point operators, consortium leads, finance providers, vehicle manufacturers, energy and hardware suppliers, data providers and contractors – and considers the effects on competition and investment in relation to them.

(a) Supported HGV operators may benefit from lower transition costs, earlier access to vehicles and infrastructure, operational learning and a stronger position when competing for contracts where customers value lower-emission logistics. The Assessment acknowledges that businesses not receiving funding may therefore face less favourable competitive conditions.

(b) Infrastructure providers may benefit from reduced upfront investment costs, lower amounts of capital to recover through future revenues, early access to

[21] The Assessment states that a further subsidy intervention may be required after the Scheme ends. This would be subject to a new SAU referral and may comprise alternative funding models to capital grants.

strategic locations and established customer relationships. The Assessment recognises that these advantages may extend beyond the funding period, with the Scheme potentially conferring a first mover advantage in the emerging infrastructure market, but argues that such distortions are inevitable to enable the HGV fleets transition.

(c) Consortium leads may gain experience and future commercial opportunities, while finance providers, data providers and energy hardware providers participating in successful consortia may also be at an economic advantage over competitors that are not part of consortia, as they have access to information, customers and infrastructure of consortia members. The Assessment also notes that vehicle manufacturers, infrastructure suppliers, energy providers and building contractors may benefit more widely from increased demand generated by the Scheme, including where they do not receive subsidy directly.

2.35 The Assessment also considers how these effects may vary geographically. Lower HGV density, longer routes, grid constraints and higher installation costs may reduce the commercial viability of infrastructure in more remote parts of Scotland.

2.36 The Assessment further explains that the likelihood of HGV operators relocating to Scotland is low because the Scheme is temporary and lower traffic density offers no wider location advantage.

2.37 Finally, the Assessment considers the Scheme's implications for market development. It identifies possible crowding out of private investment, longer-term dependence on subsidy and sustained vehicle-price inflation. The Assessment considers that these risks are limited by current low levels of commercial investment, the requirement for private finance, partial rather than full cost coverage, aggregated purchasing, competitive supplier choice and the Scheme's defined end date.

2.38 In our view, the Assessment considers and evidences a number of the effects of the Scheme on competition and investment, in line with Annex 3 of the Statutory Guidance.

2.39 However, the Assessment should**:**

(a) more closely follow Annex 3 of the Statutory Guidance with respect to market characteristics by including a fuller articulation of the market context. In particular, identifying the geographic markets in which the beneficiaries compete, analysing the impact of the Scheme on competition within that framework and considering the competition and investment effects of consortia operating with different scopes; and

(b) further consider the potential for distortions of competition to arise due to differences between this Scheme and other relevant UK schemes, and how any distortions might be mitigated.

2.40 In addition, while the Assessment identifies some potential longer-term impacts arising from the economic advantages conferred by the Scheme under step 4, it could more clearly explain under step 3 their expected duration and how the Scheme design or future market developments are expected to erode or mitigate them. For instance, the Assessment could distinguish between advantages that are likely to be temporary, such as early customer green-credential benefits, and those that may be more durable, such as subsidised early access to strategic charging locations.

Step 4: Carrying out the balancing exercise

2.41 Under step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[22]

2.42 The Assessment discusses the geographical and distributional impacts of the Scheme. It states that eligible HGV operators must be based in Scotland (other consortia members of consortia may be based in the UK or elsewhere). However, it explains that the haulage industry is widespread across the UK, with particular prevalence in densely populated areas of England;[23] other sectors expected to participate in consortia do not have a particular geographic concentration. Transport Scotland considers it unlikely that HGV operators would relocate to access the Scheme given its short duration and the reduced number of HGV operations in Scotland. The Assessment notes there would be no benefit to other consortium members as the funding is available to them regardless of location.

2.43 The Assessment outlines the expected positive effects of the Scheme, including a reduction in greenhouse gas emissions and other societal costs linked to diesel HGV emissions; a reduction in the purchase price of zero emission HGVs; the addressing of co-ordination failures; support for SMEs; and the establishment of essential charging infrastructure. These will create the evidence and confidence needed for mass transition away from diesel HGVs to zero emission vehicles.

[22] See Statutory Guidance, paragraphs 3.113–3.121 and the SAU Guidance, paragraphs 3.19–3.21 for further detail.
[23] Such as the Logistics Golden Triangle in the Midlands – see Office for National Statistics, The Rise of the UK Warehouse and the Golden Logistics Triangle (2022).

2.44 The Assessment then acknowledges the potential negative effects of the Scheme, while explaining how the Scheme and its design will mitigate them:

(a) Market distortion within the UK. The Assessment explains that some competitive distortion is likely but considers its overall impact to be low and necessary to stimulate a nascent market. Mitigations include awarding grants from the Scheme through open competition, tapering the vehicle subsidy after ten vehicles, and the consortia structure which is intended to direct support to SMEs.

(b) Investment displacing. The Assessment states that the risk of displacing private investment is low given private finance is currently unwilling to invest at the required scale. This risk is mitigated as successful consortia will be required to include private finance and the subsidy will not cover 100% of the cost gap between diesel and zero emission operations.

(c) Long-term subsidy dependence. The Assessment considers the risk that beneficiaries become reliant on subsidy to continue the transition to zero emission HGVs. This is seen as unlikely since the Scheme is designed to stimulate a nascent market and there are additional mitigations such as a time-limit to the Scheme and being designed to address upfront cost of vehicles/charging infrastructure rather than ongoing operational costs.

(d) Artificial price inflation of zero emission HGVs creating further reliance on subsidy. The Assessment considers this unlikely, using evidence from previous similar subsidies where prices came down due to increased orders. The Assessment also notes that the Scheme is time limited.

2.45 The Assessment explains that the remaining risks are reduced through an open and transparent competition, UK-wide access for consortium participants, technology neutrality, unrestricted procurement routes, subsidy caps, tapered vehicle support, beneficiary limits, monitoring and evaluation, and requirements to leverage private investment.

2.46 The Assessment concludes that the anticipated benefits are greater than the limited and mitigated risks to competition and investment.

2.47 In our view, the Assessment clearly sets out the positive effects of the Scheme in relation to the policy objectives, as well as potential negative impacts. However, as part of the balancing exercise, Transport Scotland should explain how it has weighted the positive effects against negative impacts to reach its conclusions.

2.48 Further, as set out in the Statutory Guidance, when conducting the balancing exercise Transport Scotland should address whether there may be any specific negative effects on international trade or investment.[24]

Energy and Environment Principles

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

2.50 Transport Scotland has assessed the Scheme against Principles A and B. Transport Scotland 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

2.51 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.[26]

2.52 The Assessment assess the Scheme against both limbs of Principle A.

2.53 In relation to the first limb, the Assessment states that the Scheme contributes to the decarbonisation of the transport sector through the shift from fossil fuels to electricity, thereby supporting the long-term sustainability of the energy system. The Assessment also notes the Scheme supports the development of charging infrastructure required to enable electrification of road freight. Further, the Scheme does not have adverse effects on the operation of a well-functioning and competitive energy market, as any support for charging infrastructure is limited to enabling vehicle charging and is not of a scale that would distort electricity markets.

2.54 In relation to the second limb, the Assessment explains that the Scheme supports the reduction of greenhouse gas emissions associated with heavy goods vehicles by deploying zero emission vehicles and associated charging infrastructure. Because the absence of the Scheme would mean a limited uptake of zero emission HGVs due to high upfront costs and infrastructure constraints, the Scheme therefore increases environmental protection

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[24] See Statutory Guidance, paragraph 3.117.
[25] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.
[26] Statutory Guidance, paragraphs 4.19–4.28.

relative to the counterfactual by reducing the environmental impacts associated with diesel-powered freight, including air pollution and noise.

2.55 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

2.56 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.[27]

2.57 The Assessment makes clear that the Scheme does not relieve beneficiaries, either directly or indirectly, from their liabilities as a polluter.

(a) The Assessment notes that the Scheme provides support to facilitate the transition to zero emission heavy good vehicles and associated infrastructure. The Scheme does not compensate beneficiaries for environmental damage, and does not cover costs arising from emissions, environmental taxes, charges or regulatory compliance obligations. Beneficiaries remain fully responsible for complying with all applicable environmental and regulatory requirements, and any liabilities arising from emissions or environmental harm associated with their activities.

(b) Further, the Scheme is designed to incentivise a transition away from polluting activities rather than offsetting the costs of such activities, and the costs of pollution are therefore not transferred from the polluter to the public sector.

(c) Additionally, the Assessment makes clear that the Scheme does not provide general support for ongoing operating costs or energy consumption, with any time limited support mechanisms structured to enable initial investment and reduce early-stage commercial risk, rather than to relieve beneficiaries of ongoing environmental or energy-related liabilities.

2.58 As an addition to the above, the Assessment notes that Transport Scotland will ensure that the terms of the Scheme include an explicit statement that beneficiaries will not be relieved from their liabilities as polluters.

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

[27] Statutory Guidance, paragraphs 4.29–4.34.

Other Requirements of the Act

2.60 Transport Scotland 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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