Rt Hon Rachel Reeves MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London SW1A 2HQ

4 October 2024

Dear Chancellor

Your government and our industry remain committed to delivering Net Zero. We also share the belief that the transition can drive economic growth. But it will only do so if the conditions are right and the consumer can afford it.

As the biggest carbon emitting sector, decarbonising road transport is fundamental. This was the logic behind the last government's introduction of a zero emission vehicle (ZEV) mandate, to compel the sale of electric vehicles to UK consumers. But mandates don't make markets and consumers respond to carrots not sticks. Unfortunately, the private consumer has no fiscal incentive to switch and so our ZEV market looks set to miss its target. The consequences of this will not just be environmental but economic.

So far this year, one in six new car buyers has chosen a ZEV.[1] Volumes are up but market share is barely moving. The van transition is even more challenged – with ZEVs accounting for just one in 20 registrations.[2] The ZEV mandate demands 22% of every brand's new car sales and 10% of new van sales be zero emission in 2024. As an industry we will likely miss those targets and a significant number of brands face the prospect of either buying credits from another company or paying swingeing compliance payments.

These are not consequence-free choices. No company wants to support a competitor, especially if they may have had competitive advantages in production. And any amount will have to be provisioned, with a consequent cut in investment, R&D or jobs. And in any market, costs are invariably passed on, so it is the consumer who pays.

Technology transformation is seldom smooth. When the mandate was conceived, the expectation was for steady economic growth, ever cheaper batteries, plentiful raw materials and critical minerals, cheap energy, low interest rates, growing demand. The past couple of years, with all that has happened globally and locally, have proven those assumptions to be flawed.

As a result, ZEVs remain stubbornly more expensive and consumers are wary of investing. A lack of confidence in the UK's charging provision is another major barrier. Despite unprecedented manufacturer investment – both in product and market support (some £2 billion this year in customer offers[3]) – the market is not moving quickly enough. People are holding off such that the average age of a car on the UK's roads has risen from eight to over nine years old.[4] That is bad for the industry, bad for government, bad for the environment.

The overall market remains around a fifth below pre-Covid levels, with the lowest proportion of private consumer demand on record – a situation even more stark than the 2008 financial crisis that prompted government to step in with the 'cash for bangers' scheme.[5]

What growth there is has come from the fleet sector. Driven by fiscal incentives such as company car tax and salary sacrifice, they account for 77% of new ZEV registrations. Proof that incentivisation works.

A fair transition for private consumers would afford similar support:

- Create a strong fiscal incentive for private consumers such as halving VAT on new ZEV purchases for three years to put more than two million new ZEVs on the road by 2028[6]
- Amend the Vehicle Excise Duty regime's treatment of ZEVs and, in particular, the Expensive Car Supplement to avoid unfairly penalising buyers

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- Equalise VAT on public charging to match the 5% home charging rate, and mandate infrastructure targets to support those who cannot charge at home – both key commitments in Labour's manifesto
- Maintain and extend the business incentives that are working, including Benefit in Kind rates helping fleets to renew and supporting company car buyers and those able to access salary sacrifice schemes
- Maintain and extend the plug-in van and taxi grants, which are due to end in March 2025, and ensure van-sized public chargers are made commonplace

We appreciate the severe constraints on the public purse. But deliver this support to consumers together with a pragmatic approach to regulation and the benefits are myriad: a thriving market, enhanced consumer choice and affordability, investment attractiveness, high value job creation, cleaner air, quieter streets and economic growth.

We know your government is committed to a vibrant and competitive UK automotive industry, but there is still a job to be done. With the right measures, the right consumer support and the right ecosystem, we can fix the foundations of this transition and with it deliver the biggest technology transition ever attempted, and the economic growth and environmental improvements that should be non-negotiable.

Yours sincerely,

Mike Hawes, CEO, SMMT

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BMW Group UK Ltd

Lisa Brankin, Chair & MD,
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cc:

Rt Hon Louise Haigh MP, Secretary of State, Department for Transport
Rt Hon Jonathan Reynolds MP, Secretary of State, Department for Business & Trade
Rt Hon Ed Miliband MP, Secretary of State, Department for Energy Security & Net Zero

Notes to editors

1 BEV share of YTD new car market 17.8% - prelim figures
2 BEV share of YTD new LCV market to 3.5T 4.8% - prelim figures
3 £2 billion support based on average discount reported by Auto Trader on BEVs in September of 12.1% as proportion of average retail price of a new BEV (£49,600, based on JATO data) multiplied by SMMT's full year BEV market outlook of 364,000 units. To note this does not include finance offers or incentives given to large fleets
4 Average age of car in use 8 years in 2019, 9.3 years in 2023
5 Private share of new car registrations in YTD is 38.9%, compared with 41.9% in 2008 and has averaged 45.9% between 2008-2023