

A zero-emission vehicle (ZEV) mandate and CO2 emissions regulation for new cars and vans in the UK in May 2023

UKPIA RESPONSE

Question 1: (a) Do you agree or disagree with the UK Government's preference to introduce a UK-wide regulatory framework? (b) Or, do you agree or disagree with the introduction of different trading schemes with separate requirements in one or more of the nations, different from the rest of the UK? Please explain your answer.

ZEVs – defined by DfT by their exhaust emissions- will have a hugely important role in reducing the UK's transport emissions and we have provided feedback so that this mandate can support their rollout.

However, UKPIA disagrees with the narrow definition of ZEVs within the Mandate's scope, as emitting no CO₂ from the exhaust fails to account for the lifecycle emissions of Battery Electric Vehicles (BEVs) and Fuel Cell Electric Vehicles (FCEVs), and disadvantages internal combustion engine vehicles (ICEVs) that, when powered by low-carbon liquid fuels or hydrogen (H₂ ICE), can meet the same emissions reductions requirements. The EU has already acknowledged, the use of low-carbon fuels can also meet sustainability requirements and offer combustion engine vehicles a route to net zero too. UKPIA believe the UK should introduce a technology-neutral policy that can let the use of multiple decarbonisation technologies be driven by consumer choices rather than policy.

Specifically, regarding a UK-wide framework, UKPIA agrees that multiple schemes will create fragmentation within the UK, cause extra confusion and increase administrative burden. Regions under devolved administrations have only a few vehicle manufacturers, so producing a devolved scheme exclusively for them is unrealistic.

<https://www.smmr.co.uk/reports/full-charge/uk-automotive-interactive-regional-map/>.

The smaller pool from which to draw will inevitably increase the price of compliance for vehicle manufacturers which would be passed on to consumers.

It also creates the risk of unintended consequences such as vehicle dealerships on the borders of UK nations, which face different regimes depending on where their customers are based, which can lead to price differences and an increased administrative burden.

The region with the lowest price or least stringent will have a temporary advantage up to 2030. Diverge from the overall UK net zero goals.

Question 2: (a) Do you agree or disagree with the UK Government's preference to introduce UK-wide annual targets? (b) Or, do you agree or disagree with year-on-year targets having to be met within each nation of the UK annually? Please explain your answer.

As described in Q1, UKPIA does not agree with the zero-emission vehicle (ZEV) mandate, as proposed in this consultation, believing its scope is too narrow and misses out key technologies that could deliver net zero across the car fleet.

However, for a mandate of any scope UKPIA agrees that a UK-wide scheme would reduce operational uncertainty and allow flexibility across the UK. Targets and credits can be traded with more entities, benefiting devolved regions the most with few manufacturing capacities.

The smaller pool from which to draw associated with a UK nation approach rather than a UK-wide one will inevitably increase the price of compliance for vehicle manufacturers which would be passed on to consumers.

It also creates the risk of unintended consequences such as vehicle dealerships on the borders of UK nations, which face different regimes depending on where their customers are based, which can lead to price differences and an increased administrative burden.

Question 3: Do you agree or disagree with the proposal for the central trajectory for new zero-emission cars set out in Table 1?

UKPIA is unable to comment in detail but would like to highlight some important factors regarding this. Recent developments and underlying data from Auto Trader call into question the achievability of manufacturers being able to meet the targets and trajectory for the sale of ZEV cars. Significant barriers remain towards the widescale rollout of BEV ownership, including affordability, access to charging infrastructure and BEV operational performance concerns.

<https://plc.autotrader.co.uk/press-centre/news-hub/used-electric-demand-remains-robust-but-interest-in-new-evs-waning-time-to-put-road-to-2030-back-on-track-with-tax-breaks/>

Question 4: Do you agree or disagree with the proposal for the central trajectory for new zero-emission vans set out in Table 2?

UKPIA is unable to comment in detail but would like to highlight the key factors outlined in our response in Q3. UKPIA are keen to understand the rationale behind both Passenger ZEV and Van ZEV targets including any publicly available information which has been used to set the trajectories.

Whilst vans make up a lower share of the total light-duty vehicle fleet, they average a higher mileage than cars and thus BEV vans will require recharging more often. Further, consideration should be given to whether the larger batteries required to power heavier vehicles will reduce cargo space and thus require more vehicle trips to deliver equivalent volumes of goods. The associated opportunity cost for vans – which are tied to commercial activity – is considerably higher than for private cars. Therefore, the economic costs for van drivers needing to charge during commercial hours need to be carefully considered.

Question 5: Do you agree or disagree that the proposed derogations (thresholds and adapted trajectories) strike an appropriate balance between supporting small-volume manufacturers while also ensuring that all manufacturers play a part in the transition to ZEVs?

UKPIA agrees with the intent to protect SMV as part of the proposed mandate but suggests that manufacturers near each threshold should also be considered for inclusion as they become larger contributors.

There is no clear indication of the scenario of when moving down from a group and the subsequent allowance allocation, (ie. Moving from an LVM (Large Vehicle Manufacturer) to an SVM (Small Vehicle Manufacturer). Will the new SVM be using the LVM manufacturing allowances from the previous year? If so, it is punishing manufacturers for downsizing, potentially due to economic reasons and thus causing even more financial stress.)

UKPIA are also concerned for manufacturers that are manufacturing just above the SVM threshold. This scheme would incentivise them to produce less to meet the SVM threshold. Targets can be derived by analysing the percentage value above a certain threshold rather than including all manufactured vehicles into a single calculation, like that of the UK income tax system.

Question 6: Do you agree or disagree with these proposals for the inclusion or exclusion of SPVs? If you disagree, please state your reasons for specific SPV categories.

UKPIA agrees with the inclusion of SPVs but advocates for a technology-neutral stance based on sound science and the use of a full lifecycle assessment rather than the current tailpipe emissions criteria used.

Question 7: Do you agree or disagree with the proposals for banking during the 2024-2030 period?

UKPIA agrees with the inclusion of a banking system. This would enable flexibility for manufacturers and would not sacrifice the greenhouse gas reduction obligations overall.

Question 8: Do you agree with the proposed provisions for borrowing in the 2024-2026 period? If you disagree with the proposal, please provide alternative options and your rationale.

UKPIA disagrees with the proposed provisions for borrowing in the 2024-2026 period.

Potentially extend the scheme up to 2027. This would allow more flexible planning for future years for manufacturers as this scheme would only be confirmed at the earliest late 2023 and is to be started in 2024, which is a very tight operational period for manufacturers to plan for future manufacturing configurations.

Question 9: What are your views on the proposed minimum requirements for ZEVs (emissions, minimum range and warranty)?

UKPIA would like to see a technology-neutral stance as described in the Q1 response and the use of a full lifecycle assessment to fully reflect the full environmental impact rather than the current tailpipe emissions criteria used.

As hydrogen fuel cell vehicles classify as ZEV, UKPIA would like the DfT to clarify whether the emissions from the source of production of hydrogen are taken into account.

UKPIA believes in a technology-neutral approach where all possibilities are considered equally, and no technologies are favoured against another if they all meet the UK's decarbonisation agenda. Hydrogen ICE and E-fuel vehicles should also be considered in this scheme as ZEVs as they meet the requirements of emission requirements in the scheme. This has been recently adopted in Germany where E-fuels have been exempted from the ICE ban as the technology meets all the sustainability requirements.

<https://www.ft.com/content/64e9acf7-985e-4c80-8a7d-5c195398637b>

<https://www.eiu.com/n/eu-decision-on-e-fuels-unblocks-electric-vehicle-targets/>

Question 10: Are there additional minimum requirements that should be added to the regulation (in the first year or at a later point)? Please provide your rationale.

UKPIA is not aware of any additional minimum requirements that should be added to the regulation. Socio-economic issues such as human rights violations, labour abuses, and illegal activity associated with mining should be considered and associated with the minerals/fuels used in the manufacturing process. Consequences for such actions must be considered to enforce accountability.

Question 11: Do you agree or disagree with the proposal to provide additional credits to ZEVs used in car clubs? Are there any additional criteria or provisions that can increase the effectiveness of these incentives? Please explain your reasoning.

UKPIA disagrees with the proposal to provide additional credits to ZEVs used in car clubs.

It is unclear why car clubs should get a specific advantage, particularly when it is noted that other public transport vehicles, such as taxis, have not been included.

The second-hand market of the ZEVs originally in the car club within the 2 years is also unclear. Once sold to the car club, it is not up to the manufacturers to decide whom the car is sold to by the car club, and thus manufacturers will be penalised if the car club sells it within 2 years despite having no control.

Question 12: Is the proposed incentive mechanism an appropriate and beneficial way to support the development of zero-emission WAVs?

UKPIA supports the intention of improving mobility for wheelchair users, however, are unsure of the effectiveness of this proposal.

Question 13: What are your views on the proposed payment levels in the ZEV mandate?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

Question 14: What are your views on the proposed methodology to set baseline CO2 emissions targets for manufacturers?

UKPIA disagrees with the proposed methodology to set baseline CO2 emissions targets for manufacturers. The current proposal fails to recognise the full environmental impact of a technology, rather currently only focuses on tailpipe emissions which disproportionately and unjustly favours certain technologies.

Question 15: Do you support the flat scenario, the tightening scenario, the lightweighting scenario or a different trajectory for the CO2 standard? Please explain your reasoning.

UKPIA prefers the flat scenario. Manufacturers will not have many years left to produce non-ZEVs economically, due to the impending ICE vehicle sale ban in 2030, so further restricting them with their current operations may force manufacturers to move abroad before establishing a domestic ZEV supply chain.

Question 16: Does the proposal for derogations under the non-ZEV CO2 standard strike an appropriate balance between supporting small volume manufacturers and minimising increases in emissions from combustion engine vehicles?

Yes. This would not isolate niche markets such as luxury or vintage vehicle markets can cause manufacturers to compromise on classic features/performance. Encourage cultural heritage. Such small-volume manufacturers will not have any significant impacts on the overall emissions.

Question 17: What are your views on the proposed categories for exemptions from the non-ZEV CO2 standard?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

Question 18: Do you agree or disagree with the proposal for how pooling would operate under the ZEV mandate and non-ZEV CO2 standard?

Agree, pooling would allow more efficient use of resources and reduce administrative burden.

Question 19: What are your views on the proposed method for setting non-ZEV CO2 targets for new manufacturers entering the UK market?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

Question 20: What are your views on this proposed mechanism to enable overcompliance with the ZEV mandate to help toward compliance with the non-ZEV CO2 regulation?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

Question 21: What are your views on this proposed mechanism to enable overcompliance with the non-ZEV CO2 standard to help toward compliance with the ZEV mandate targets?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

Question 22: What are your views on the levels and structure of the proposed payment system for the non-ZEV CO2 regulation?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

Question 23: What are your views on the proposed timeline and process for reporting data and meeting compliance with the ZEV mandate and non-ZEV CO2 scheme?

This is out of UKPIA's area of expertise, and we are unable to comment in detail.

However, the verification/audit requirements for this scheme are unclear. Loopholes such as manufacturing parts of the vehicle in this country and offshoring it to be assembled in another country to avoid complying with the scheme should also be considered. While Rules Of Origin (ROO) are a well-understood consideration of the car manufacturing industry, current issues in this regard could be exacerbated by the addition of further sustainability reporting requirements as proposed.

It is worth considering RTFO timeline for the redemption of the certificate is in September (9 months given since the previous reported year). This scheme proposes a much longer timeline. It would be beneficial to understand the rationale for the different timeline required under the ZEV mandate scheme.

Question 24: Do you support or oppose the proposal to keep the regulation under review?

UKPIA supports the proposal to keep the regulation under review. There is a possibility where new technologies are introduced into the market enabling a cheaper and quicker energy transition. It is important for this policy to be adaptive to future/currently unforeseen scenarios.

EU's decision to allow liquid e-fuels in ICEVs beyond 2035. European Union's approval of legislation on 28 March to exempt ICEVs powered by e-fuels offers a salutary example where low-carbon liquid fuels that meet the necessary sustainability requirements will be available to consumers. The EU agreement also approved a draft regulation committing officials to "a review clause that will ensure that in 2026, the Commission thoroughly assess the progress made towards achieving the 100% emission reduction targets and the need to review these targets taking into account technological developments, including with regard to plug-in hybrid technologies and the importance of a viable and socially equitable transition towards zero emissions."

UKPIA strongly urges the UK to similarly adopt a commitment to review progress towards both the proposals in this consultation, but also on the progress or otherwise towards the rollout of BEV charging infrastructure ahead of the proposed dates to ban the sale of ICEVs.

<https://www.euractiv.com/section/road-transport/news/eu-drafts-plan-to-allow-e-fuel-combustion-engine-cars-document/>

Question 25: What are your views on the potential impact of the two proposed schemes on communities in the more rural and remote parts of the UK and to those businesses involved in the sale of vehicles in those areas?

UKPIA is concerned of the effect these proposals – alongside the impending 2030 ban of the sale of new petrol and diesel vehicles – will have on several socioeconomic groups in the UK, particularly across lower-income groups and those in non-urban settings, with acknowledged concerns around the affordability of new technologies and the risks of prioritising transport policy disproportionately against rural interests. DfT should investigate a comparison scheme to the rural duty relief scheme to ensure rural communities are supported.

<https://www.gov.uk/guidance/rural-duty-relief-scheme-notice-2001>