



Department for
Business, Energy
& Industrial Strategy

Nadhim Zahawi MP
Minister for Business and Industry

Department for Business, Energy &
Industrial Strategy
1 Victoria Street
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Darren Jones MP
Chair of the Business, Energy and Industrial Strategy
Committee
House of Commons
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02 July 2020

Dear Darren,

RE: Support for the Automotive Sector

Thank you for your letter of 19 June regarding support for the automotive sector in light of the Covid-19 pandemic.

We recognise that the automotive sector has been affected, with both production and demand at a standstill during April and May due to Covid-19. As car showrooms are now open and manufacturing is resuming, we are continuing to monitor the situation very closely. The Secretary of State and I have held regular roundtables with key industry stakeholders throughout this crisis, with the most recent meeting taking place with the automotive sector on 25 June.

As you know, Government moved swiftly to put in place a comprehensive package of support to help all businesses manage the impact of Covid-19, and this has been well utilised by the auto sector. This complements the Government's long-standing and comprehensive package of support focused on enabling UK manufacturers to develop and adopt new technologies to make the transition to electric vehicles. I would now like to turn to each of your specific questions in turn to provide more detail on our support for the sector.

Is the Government minded to provide a sectoral support package for British automotive manufacturers and their supply chains? More specifically, is the Government considering a scrappage scheme for petrol and diesel vehicles?

Although there is no Covid-19 support designed specifically for the automotive sector, the wider support schemes from the Chancellor have been welcomed and utilised by the sector. Recent surveys by the Society of Motor Manufacturers and Traders (SMMT) showed that the Job Retention Scheme was accessed by over 60% of full-time workers in the automotive sector in April, and a third of workers in May.

A number of media articles have suggested that Government is considering a scrappage scheme for petrol and diesel along the lines of a scheme introduced in 2009. We have no current plans to change the existing incentives or to introduce a scrappage scheme. Early indications suggest that demand is responding in a similar manner to that of a decade ago. The 27% annual sales reduction forecast this year is very similar to the 24% annual retail sales reduction experienced in 2008/9; and there is evidence that footfall in showrooms and online searches in June are increasing. In addition, the National Audit Office's analysis

of the original 2009 scrappage scheme showed that it provided poor value for money for the taxpayer and did not have a significant impact on buying behaviour.

We agree that accelerating the transition to zero-emission vehicles will play a fundamental role in achieving our twin objectives of reducing emissions to 'net zero' by 2050 and to 'level up' the economy across regions and communities. To achieve this, the Government is investing a total of £2.5 billion to support consumers make the transition to zero emission vehicles and already provides a number of subsidies for consumers and businesses to purchase and run these vehicles, including the plug in car grant - £3,000 towards the cost of a zero emission vehicle, lower tax rates, and funding to support the installation of chargepoints.

How will support measures be linked to incentives to increase manufacturing capacity for zero emissions vehicles?

Government has a long-standing commitment to supporting the UK automotive sector as it transitions to the manufacture of low carbon and zero emission vehicles. Government and industry have jointly committed almost £1.5 billion through the Advanced Propulsion Centre (APC) and Faraday Battery Challenge to research, develop and commercialise the next generation of low carbon technologies. APC delivery partners are committed to maintaining the pace of research. This month, the APC announced the combined results of its 14th and 15th rounds of funding, providing additional £73 million for 10 projects committed to achieving low-carbon technology in the automotive industry. As part of this package up to £30 million is available through APC16, which is currently open for applications.

Last September we announced we are investing up to £1 billion of additional funding to develop UK supply chains for the large-scale production of electric vehicles, and for further EV research and development. This funding will also help to support further research and development focusing on the mass production of key technologies in the UK through major investments in the manufacturing of batteries, electric motors, power electronics, and hydrogen fuel cells, along with their component and materials supply chains. A further £16m is being invested in an industry-led programme to increase productivity and competitiveness of automotive suppliers.

What are the Government's plans to ensure that the UK automotive industry is not left behind by plans to bolster demand for electric vehicles by our European competitors, notably the French and German plans to offer grants - of up to €7000 and €9000 respectively - for motorists to purchase electric vehicles?

The March Budget included over £1 billion additional funding to support the transition to zero emission vehicles, raising the total investment to £2.5 billion. This included over £530 million to keep plug-in vehicle grants for another three years to 2023, and favourable benefit in kind rates for zero emission vehicles were extended out to 2025. Alongside this, Government announced it will provide £500 million over the next five years to support the roll out of high-powered charging infrastructure for electric vehicles.

Since 2011, our plug-in vehicle grants have supported over 240,000 ultra low emission vehicles, of which just over 230,000 are cars. So far this year, the plug-in car grant has supported the purchase of over 22,000 battery electric cars. Today, a driver is never more than 25 miles away from a rapid chargepoint anywhere along England's motorways and major A roads. By 2023, we aim to have at least six high powered, open access chargepoints (150 - 350 kilowatt capable) at every motorway service area in England, with some larger sites having as many as 10-12, and by 2035 we expect the number of increase to around 6,000 high powers chargers across the network.

As you know, we are consulting on bringing forward the end to the sale of new petrol and diesel cars and vans from 2040 to 2035, or earlier if a faster transition appears feasible, as well as including hybrids for the first time. We are considering the long-term future of incentives for zero emission vehicles alongside this consultation. By talking to stakeholders about the best way to achieve that ambition, we will more easily be able to identify what measures would be needed to support the transition.

What assurances can you provide that the Government's stimulus package as a whole, including interventions for manufacturing across all sectors, will be in line with the 2050 net zero target?

The UK has demonstrated that growing our economy and cutting emissions is a win-win. We have grown our economy by 75% while cutting emissions by 43% over the past three decades. The UK has over 460,000 jobs in low carbon businesses and their supply chains, including in the automotive sector.

As the Prime Minister has said, as we recover from Covid-19 we will build on that past success and deliver a UK economy which is stronger, cleaner, more sustainable and more resilient. Many of the actions we need to take to reach our target of net zero emissions by 2050 will support the future growth of our economy and enable us to seize the opportunities of growing global markets.

To help inform the decisions we need to take to support that recovery, the BEIS Secretary of State recently chaired a series of economic recovery roundtables, bringing together businesses, business representative groups and leading academics. These discussions focussed on the measures to support economic recovery and ensure we have the right skills and opportunities in place for our workforce in both the short- and long-term. The roundtables were organised around five themes, including one focused on Green Recovery, at which the automotive sector was represented by the Society of Motor Manufacturers and Traders.

The roundtables are part of an intensive programme of engagement to inform the Government's approach to economic recovery, and government continues to hold regular extensive engagement with stakeholders across all sectors. The insight gathered through these roundtables will help identify ways in which government can work together with business and other stakeholders to support a green and resilient recovery and ensure the UK is at the forefront of new and emerging industries.

Yours Sincerely,

A handwritten signature in grey ink, appearing to read 'N. Zahawi', with a stylized, flowing script.

NADHIM ZAHAWI MP
Minister for Business and Industry