SMMT
DRIVING THE
MOTOR INDUSTRY

SAME DESTINATION, SMARTER ROUTE:

Delivering decarbonisation in the modern market

"The destination remains the same. How we get there is now more critical than ever."

For more than a century, the UK has relied on petrol and diesel to get around. Yet in the space of just a few short years, Britain's transition towards zero-emission motoring has accelerated at an incredible pace.

Among major European markets, the UK has the highest share of new zero emission car registrations and is the continent's second largest electric car market. It has led the way with demonstrator programmes to accelerate uptake of zero emission HGVs, secured high profile commitments for gigafactories to underpin battery supply, and built Europe's largest zero emission bus market. Consumers and businesses alike benefit from a growing and diverse choice of zero emission vans, cars, trucks and buses, supported by sustained industry investment.

Yet as we move through 2026, it is increasingly clear that even this relentless pace is not enough.

The transition to zero emission vehicles has been years in the making. Initial targets to end the sale of non-zero emission vehicles were conceived as far back as 2017, with the core regulatory framework largely finalised in 2021, at a moment when the UK's EV market appeared poised for rapid acceleration.

What followed was a period of upheaval few could have foreseen.

An EV transition depends on the right economic, industrial and consumer conditions. Today, those conditions are significantly more challenging than anticipated just five years ago. The global pandemic cast a long shadow, with vehicle demand yet to fully recover. Supply chains were disrupted by acute shortages of critical components, slowing production and delivery. At the same time, a fundamental shift in the global geopolitical landscape has had profound consequences. The knock-on effects have reshaped global energy markets, driving up both the cost of production and the cost of living to levels that were previously inconceivable. A more protectionist global economy has also raised the cost of doing business.

Despite these headwinds, the industry remains committed to delivering the transition. The destination remains unchanged: net zero by 2050, and fully decarbonised car and van markets by 2035.

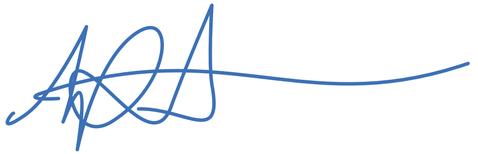
But when conditions change so fundamentally, it is both reasonable and necessary to ask whether the route originally planned still offers the best chance of success – one that delivers decarbonisation without deindustrialisation and environmental progress without economic damage.

This report sets out the case for an urgent holistic review of the UK's transition. It examines core assumptions that have proved overly optimistic and identifies the key areas that must be addressed to ensure the route ahead is credible, workable and sustainable.

The Zero Emission Vehicle Mandate is a central part of that route, and a reality check is essential. But the success of this transition extends far beyond a single regulation. How do we decarbonise the more complex and diverse commercial vehicle sector? And does the UK risk placing itself at a competitive disadvantage by adhering to an increasingly unrealistic plan while other major economies reassess their own approaches?

These are difficult questions – but they are necessary.

The destination remains the same. How we get there is now more critical than ever. At this pivotal moment, the UK must assess whether the road ahead delivers for industry, for society and for the planet.



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CHANGED CONDITIONS:
BARRIERS TO A BIGGER MARKET

In November 2020, the then UK Prime Minister, Boris Johnson, outlined the government's plan to end the sale of non-zero emission new cars and vans by 2035.

The automotive industry is committed to decarbonisation – but since that announcement, the world has changed in ways unimaginable. The destination remains the same, but the conditions en-route require a rethink of how to get there if Britain is to decarbonise without deindustrialising.

MARKET DEMAND: FORECASTS HAVE PROVED TOO OPTIMISTIC

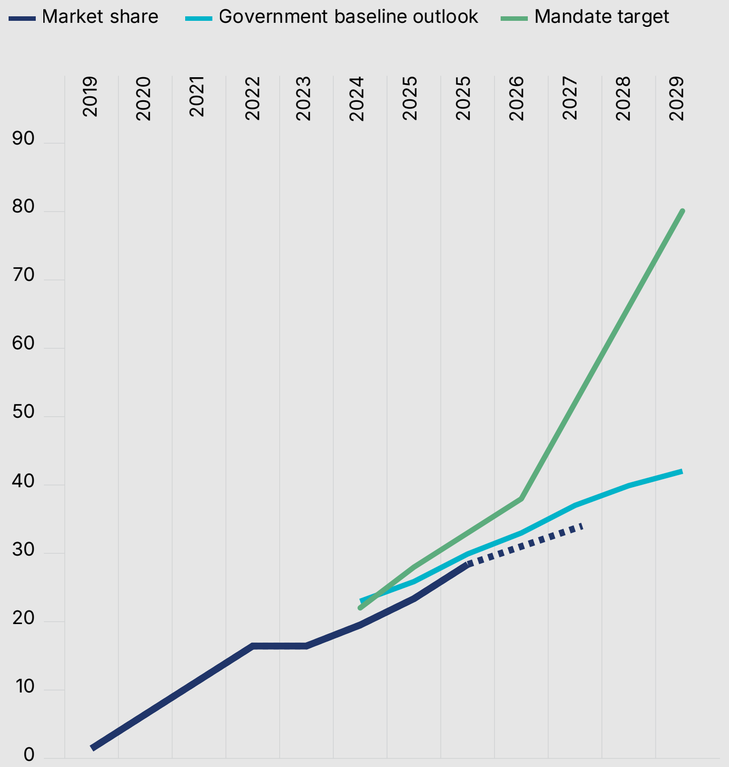
EV adoption has remained consistently behind government's ambition, behind even the expectations government had before regulatory intervention.

Its original outlook suggested that a new car market without a mandate would reach 26% battery electric vehicle (BEV) share in 2025.[1] Yet even with the mandate, and despite billions invested in new products and technologies, a massive choice of vehicles in every segment and discounting totalling at least £10 billion in the first two years of the ZEV Mandate, drivers have proved less willing to move to electric vehicles than anticipated – with 2025's market share reaching 23.4%

The pandemic years delivered significant growth in BEV uptake. While this undoubtedly raised expectations and informed government policy, that growth could not be sustained. Such over-optimism was not confined to the UK – with BloombergNEF stating in August 2025: *"As we get into the second half of 2025, it's worth recognising that the optimistic EV adoption forecasts were also off the mark. Over the last decade, a steady stream of forecasters offered rosy views on EV adoption that simply haven't come to pass. Worse, many of them were never revisited, leaving lessons unlearned."*[2]

In fact, in 2023 – the year the then government set out its Zero Emission Vehicle Mandate – the BEV share of the car market reversed. Since then, the gap between ambition and reality has held and the outlooks have continued to widen. The consequences are profound – swimming against the market current has cost the industry billions just trying to keep up, while upcoming tax changes will suppress natural market growth.

NEW ZEV CAR MARKET OUTLOOK AND PERFORMANCE



Source:
Zero Emissions Vehicle Mandate and non-ZEV Efficiency Requirements Consultation-stage Cost Benefit Analysis – published March 2023
SMMT Market Outlook published February 2026

GEOPOLITICAL LANDSCAPE
KEY GLOBAL MARKETS ARE REVISING THEIR PLANS

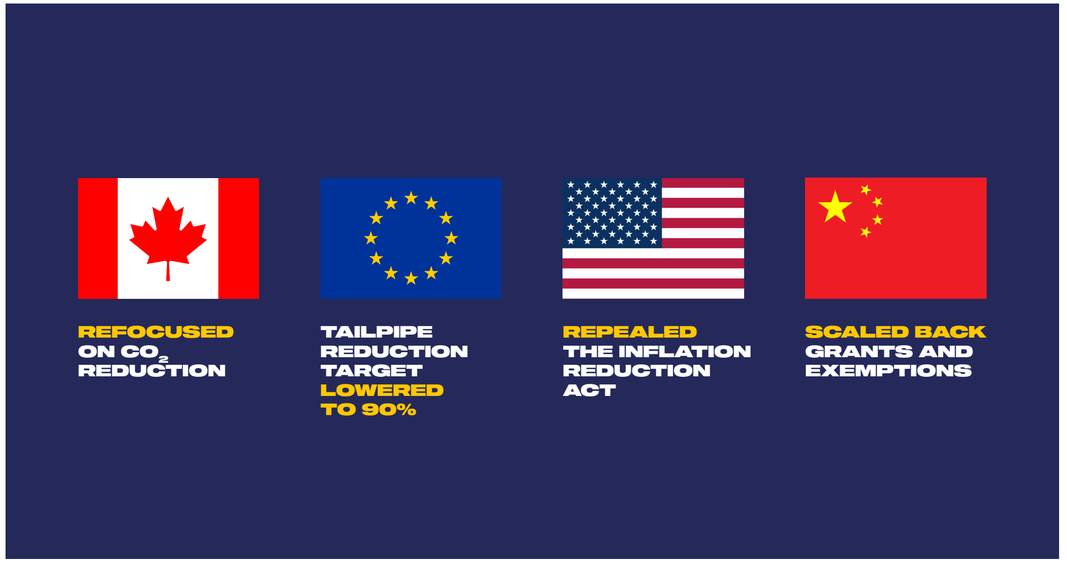
In 2022, there was an increasing global consensus on supporting the transition.

Many markets worldwide provided incentives and support for drivers to make the switch.

The UK offered a Plug-in Car Grant, worth up to £1,500 (scaled back from £5,000 when first introduced). Most European countries provided purchase incentives while the EU Fit for 55 package, with its 100% tailpipe CO_2 reduction by 2035 commitment, offered regulatory certainty. Further afield, the US Inflation Reduction Act provided $7,500 of tax credit on new EVs, $4,000 on used EVs, and promoted more than $100 billion in US EV and battery manufacturing investment thanks to the certainty provided for the market. In China, EV drivers also benefitted from grants and an exemption from vehicle purchase tax.

In 2026 that consensus no longer stands. The UK's grant was withdrawn in 2022, and later replaced in 2025 with the Electric Car Grant for a smaller portion of eligible vehicles. Most major European countries have also reduced or scrapped subsidies, while the EU's tailpipe reduction target has lowered to 90%.[3] The US has repealed the Inflation Reduction Act and federal actions no longer need to consider the impact of greenhouse gases.[4] China, meanwhile, has also scaled back grants and exemptions.

The result has been a slowdown in the transition in key markets. Some countries, such as Germany, have reintroduced incentives in an attempt to offset this impact. Others, such as Canada, are taking a pragmatic approach by introducing significant purchase incentives, while replacing their ZEV sales mandate with refocused regulation on CO_2 reduction – recognising that the entire point of the transition is not to mandate use of a specific technology, but to decarbonise road transport.[5]



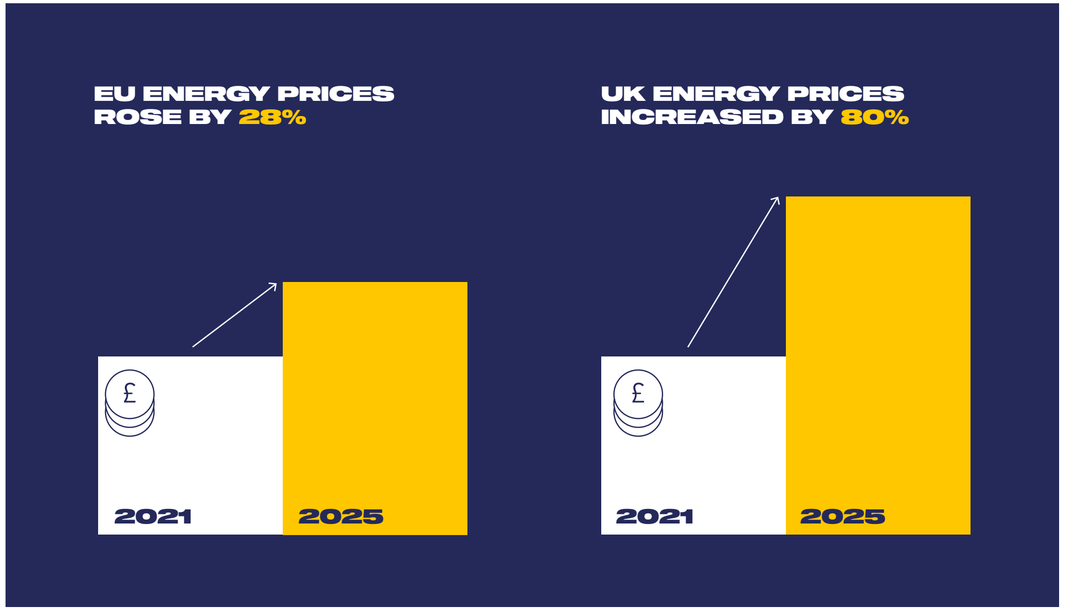
MANUFACTURING:
COSTS AREN'T FALLING FAST ENOUGH

Vehicle manufacturing – particularly for an EV – is energy intensive. Russia's invasion of Ukraine, and subsequent steps by many nations to reduce dependence on Russian gas, led to a global increase in energy prices, impacting on vehicle production costs. This has had a snowball effect on vehicle purchase prices, acting as a further barrier to the market shifting.

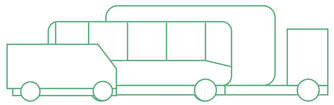
Between 2021 and 2025, EU industrial energy prices rose 28%, while UK industrial energy prices increased by 80% – in fact, UK energy costs are 124% above the EU average. While costs are now beginning to come down, the largest supplier of EVs to the UK has significantly increased production costs, making it challenging to achieve cost parity – and then when those vehicles are put into use in the UK, they are more expensive to charge than originally anticipated. In some cases, public charging costs are more than double those of 2021. Such costs depress demand as they undermine the argument for a lower total cost of ownership on EVs.

Battery costs have not decreased in line with expectation. In 2021, BloombergNEF estimated that EV batteries would cost less than $100/kWh by 2024 - potentially reaching as low as $80/kWh in 2026. While battery prices have indeed reduced, as of the end of 2025, they were still on average $108/kWh.[6]

Manufacturers also face a looming tariff timebomb. Under the EU-UK Trade and Cooperation Agreement, from 2027, cross-channel imports of EVs will be subject to tariffs if the battery is not sourced from the EU or UK. This would raise the cost of EU-made EVs in the UK – the largest source of the UK's zero emission vehicles, as well as placing UK production at a disadvantage.



COMMERCIAL VEHICLES
DEMAND IS DRASTICALLY BEHIND AMBITION



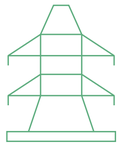
Decarbonising commercial vehicles is proving vastly more challenging than previously expected.

In 2025, the Department for Transport's modelling suggested that without policy intervention, new zero emission vans would account for just 4% of the market in 2024, and 12% by 2030. The target set, however, was 16% in 2025 and 70% by 2030 – a drastic increase.

Van manufacturers have provided operators with vast choice, with more than half of all models available as zero-emission, and subsidies, with average discounts of more than 30% in 2025.[7] This has pushed the market, with ZEVs accounting for 9.6% of new van sales in 2025. However, despite the choice, discounts and government incentives, this was barely half the target for the year, demonstrating the optimistic nature of the regulation.

While no market share targets have been set for the heavy goods vehicle (HGV) sector, ZEVs accounted for 1.4% of new registrations in 2025. This represents growth, as the market was stagnant at 0.5% of in both 2023 and 2024 – but this increase is also in part attributable to procurement under the Zero Emission HGV and Infrastructure Demonstrator (ZEHID) programme. With an all-ZEV HGV market targeted for 2040 – and everything under 26t for 2035, the same date as cars – the challenge is stark. In comparison with the car market, ZEV HGV uptake has barely begun. The diversity of jobs performed by HGVs – refuse collection, temperature-controlled logistics, bulk good tipping, crane operations, vehicle recovery, firefighting and much more – makes decarbonising trucks significantly more challenging, Operators need certainty over lower total costs of ownership, but anxieties over payload, range and the high capital cost of installing depot charging infrastructure depress demand and motivation to switch.

INFRASTRUCTURE AND GRID CONNECTIONS
INFRASTRUCTURE ROLLOUT HAS BEEN HELD BACK

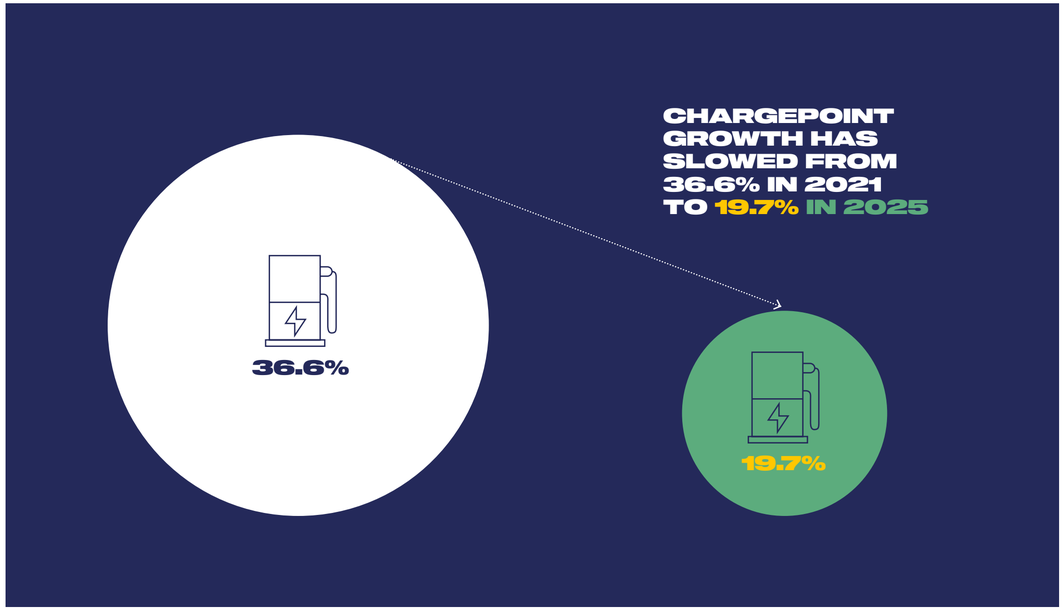


Chargepoint rollout is crucial for supporting EV uptake – so much so, that UK policy has been based on the assumption that provision will scale in line with vehicle registration targets without becoming a binding constraint on uptake.

In headline terms, public charging provision has increased, but rollout has not kept pace with BEV uptake. Chargepoint growth has slowed from 36.6% in 2021 to 19.7% in 2025[8] against a BEV uplift of 23.4%. Moreover, this increase has not been evenly distributed – more than two in five public chargers are in London and the South East.

Provision on the strategic road network has failed to keep up with government ambition. Government set a target for all motorway service areas (MSAs) to have at least six ultra-rapid chargers by the end of 2023. By early 2025 – well past this deadline – only 70% of MSAs had achieved this level of provision.[9] A lack of specific public infrastructure able to accommodate vans and HGVs also poses a clear barrier to greater uptake in the commercial vehicle sector.

Operators investing in their own depot charging infrastructure face further barriers from delays to approvals for grid connections. The approvals queue for such connections has grown tenfold in just five years.[10] In 2021, the average wait-time for a connection was just under five years. Now, the delay could be up to 15 years for 'big ticket' requests. The system is being reformed to help promote prioritising renewable energy generation projects, but currently does not prioritise transport infrastructure, which has an equally crucial role in decarbonising the UK.[11,]



ZEV AMBITION AND REALITY

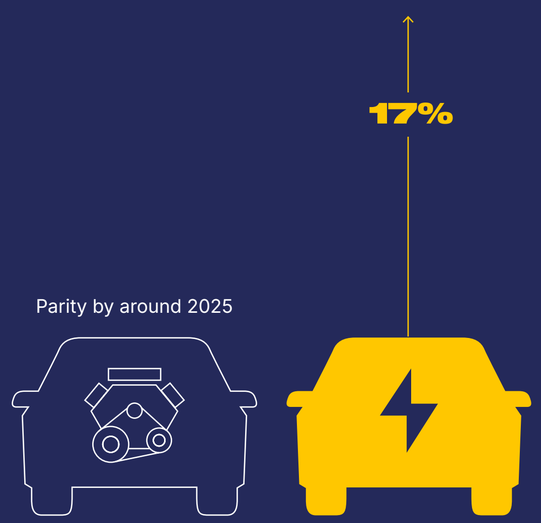
New EV market share

2021 Government outlook:
An unregulated new car market of 26% in 2025 — **26%**

2025 reality:
A regulated and incentivised market of 23.4% — **23.4%**

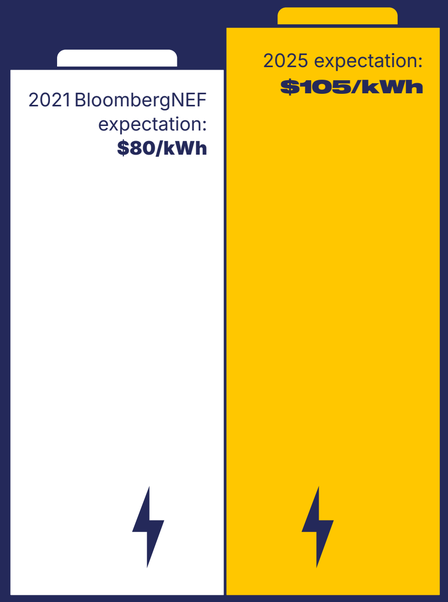
Source: Based on Zero Emissions Vehicle Mandate and non-ZEV Efficiency Requirements Consultation-stage Cost Benefit Analysis and SMMT new car registration data

BEV-ICE list price parity expectation



Source: BloombergNEF
*Based on Autotrader price data

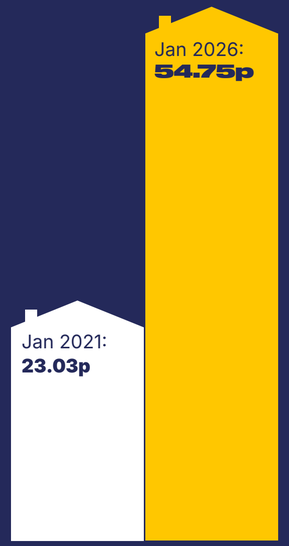
Expected average battery pack prices in 2026 up 31%



Domestic electricity prices up 61%

Source: Ofgem

Domestic electricity daily standing charge up 138%



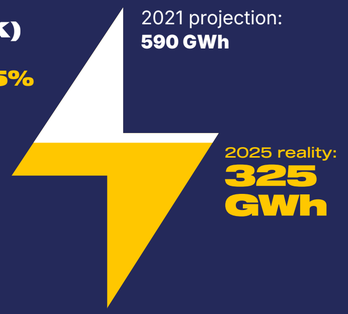
Source: Ofgem

Every motorway service area to be equipped with at least 6 ultra-rapid chargers

2023 Target
100%

Early 2025
70%
of MSAs meet the provision level

European (including UK) gigafactory capacity -45% lower than expected



Average cost to charge at a public 50kW charger +123%

Average cost to charge at a public >150kW charger +143%

Source: RAC Chargewatch

FACTORS FOR URGENT REVIEW

The UK automotive industry remains committed to the transition to zero emission vehicles (ZEVs) and continues to invest billions to drive up their uptake. However, in the light of the shifting sands of global geopolitics and consumer demand, the fundamental assumptions that underpinned policy and regulatory decisions made some five years ago no longer hold true. With the rise of protectionism around the world and the upending of free trade, supply chains have become even more constrained and fragile at a time when pressures on energy and material prices and the cost of living remain unrelenting.

The new normal requires a new route – one that is grounded in realism and pragmatism. The industry is determined to deliver, investing billions in technology, manufacturing and model choice, but the cost of complying with regulation puts the sustainability of the industry – and therefore, its ability to decarbonise road transport through fleet renewal – at risk.

There needs to be an urgent strategic review of the UK's transition to zero emission vehicles. Government must ensure there is a genuine joined-up approach, with full participation of all relevant government departments and regulators. It must entail a comprehensive, holistic assessment spanning market conditions, policy and regulation, infrastructure readiness, the energy system and industrial competitiveness within both the domestic and global contexts. This is to ensure the current charted path to zero emission vehicles remains realistic, investable and capable of delivering the intended economic and environmental benefits.

THE STRATEGIC REVIEW MUST CONSIDER THE FOLLOWING FIVE KEY ELEMENTS:

01 MARKET CONDITIONS

Industry cannot be expected to underwrite the transition and bridge the widening gap between regulatory compliance thresholds and underwhelming natural demand for EVs by exponentially subsidising uptake. Despite the return of government incentives in the form of the Electric Car Grant in the summer of 2025, achieving the highest new zero emission car share among major markets in Europe was only possible thanks to manufacturer subsidies to the tune of nearly £10 billion in the first two years of the ZEV Mandate.

For any business run on sound commercial principles, this is clearly unsustainable. It also incurs hefty opportunity costs – foregone investments in new models, R&D and employment. The transition must ultimately be driven by consumer demand, not regulatory command. Consumers must feel enticed, rather than forced, to embrace EVs. Government must therefore urgently conduct an honest assessment to quantify the EV demand gap, the industry and socioeconomic costs of regulatory compliance, and the adequacy of consumer and fiscal incentives.

02 POLICY AND REGULATION

In the light of current and expected near-to-mid-term market realities, a pragmatic approach to policy and regulation is desperately needed. While setting ambitious targets is appropriate, pragmatic flexibility and technology openness are essential for the transition to be able to handle unforeseen shocks and externalities beyond the automotive industry's control. This will ensure that the UK's economic growth and society's ability to transition are firmly and realistically embedded in the pathways to 2035 and 2040.

For cars and vans, Government must review the current Vehicle Emissions Trading Scheme (VETS) regulation as a matter of urgency, to ensure it remains fit for purpose and provides a stable, deliverable and investable decarbonisation pathway through to 2035. Such a review must assess the gap between mandate targets and customer demand, the adequacy of current regulatory flexibilities in bridging this gap, and the degree to which market enablers and infrastructure have kept pace with ZEV growth.

For heavier vehicles, Government's current consultation on a new HGV CO_2 emissions regulatory framework must pave the way for a thoughtful, joined-up approach to regulation, charging infrastructure and incentivisation that recognises the multitude of diverse HGV types, sizes and use-cases, and the fact that these commercial vehicles must continue to provide business efficiency, cost-effectiveness and competitiveness for fleet operators across their entire working lives.

In addition, the lack of clarity over what happens when VETS ends in 2030 must be addressed as a matter of urgency by setting a clear and supported regulatory pathway through to the 2035 end-of-sale for non-zero emission light duty vehicles.

03 CHARGING INFRASTRUCTURE AND COST

The UK automotive industry is required to make a more significant and advanced commitment than just about any other major car or van market in the world. Yet, unlike the EU, there is no equivalent mandate with binding targets for delivering a commensurate nationwide network of charging infrastructure that is fit for purpose for the mass market transition and that matches consumer needs.

Achieving the current policy ambition and regulatory targets will require faster rollout of reliable, affordable charging infrastructure, and a more evenly distributed and easy-to-access network of chargers across the country. The strategic review should consider whether infrastructure deployment is keeping pace with EV uptake, the extent and impact of regional disparities, reliability and accessibility issues, and the affordability of public charging.

04 THE ENERGY SYSTEM AND PERMITTING REGIME

While government's Clean Power 2030 mission is laudable, greater renewable energy provision will have no meaningful impact in powering the greenest vehicles on our roads if the underlying issues affecting the energy system are not addressed. Despite government plans for reforms, challenges remain in securing timely and affordable grid connections for depot and public charging. Smart tariffs that incentivise consumers to switch to EVs are still not widely available across all energy suppliers. Industrial and domestic electricity prices remain stubbornly high. Government must assess the impact of grid capacity, grid connections and permitting processes, the pace of electricity market reforms and energy cost on the transition to zero emission vehicles.

05 INDUSTRIAL COMPETITIVENESS AND INTERNATIONAL TRADE

The strategic review must also consider the potential impact of current policy and regulation on the competitiveness of the UK automotive industry that turns over £92 billion annually and employs nearly 800,000 people in the wider sector. This is crucial for ensuring the current pathway is optimal for supporting UK manufacturing and supply chain investment decisions, both in the short and longer term. A critical analysis is required on supply chain resilience, cost pressures, trade implications and alignment with international geopolitics to support government's Industrial Strategy. Unmitigated risks associated with the Rules of Origin on EVs with our largest trading partner, the EU, and the emerging Made in Europe strategy, could be detrimental to the UK's EV market and industrial prospects.

CONCLUSION

In 2026, Britain's transition to zero emission mobility stands at a critical juncture. The destination is clear, but the journey has proved far more complex and bumpy than anticipated. Persisting with the same approach, despite changing terrain, risks not only destabilising a vital industry but undermining delivery of net zero itself.

A timely review of the transition and the regulatory framework that governs it is therefore essential. It would provide the opportunity to reassess the route, respond to real world conditions and put the UK back on course. The ambition driving the shift to zero emission motoring is beyond question; what is now required is a pragmatic, evidence-based approach that can deliver that transition realistically and position the UK as a credible exemplar for major markets worldwide.

The automotive industry is already playing its part – investing billions to bring choice to every part of the market and boosting demand through discounting, but this cannot be sustained and even then is still not enough to offset the fact that assumptions made by government about natural demand have proven far too idealistic. By bringing together government, industry and consumers to shape a revised pathway to the same destination, policymakers can secure a transition that supports economic growth, accelerates decarbonisation and delivers cleaner, more accessible mobility for all.

The world of 2026 is not the one envisaged five years ago. Recognising that reality is not a retreat from ambition, but a necessary step to achieving it.
A pragmatic review now can ensure the UK reaches net zero on time while delivering economic growth.
The same destination – but a smarter route.

FOOTNOTES

1 Car ZEV uptake baseline forecast, UK government, 'Zero Emissions Vehicle Mandate and non-ZEV Efficiency Requirements Consultation-stage Cost Benefit Analysis'

2 'Wayward EV Sales Forecasts', BloombergNEF, 11 August 2025

3 European Commission: Commission takes action for clean and competitive automotive sector

4 US IRS, One, Big, Beautiful Bill provisions

5 Canadian Government: Prime Minister Carney launches new strategy to transform Canada's auto industry

6 BloombergNEF 2021 Battery Price Survey

7 Autotrader price data

8 OZEV, Electric vehicle charging infrastructure statistics

9 Autotrader price data

10 ESO proposes retrospective application of upcoming long-term connections reforms

11 https://www.neso.energy/industry-information/connections-reform/connections-reform-results

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