SMMT
DRIVING THE
MOTOR INDUSTRY

STATE OF THE AUTOMOTIVE NATION 2026

A BLUEPRINT FOR 2030: DRIVING THE FUTURE TOGETHER

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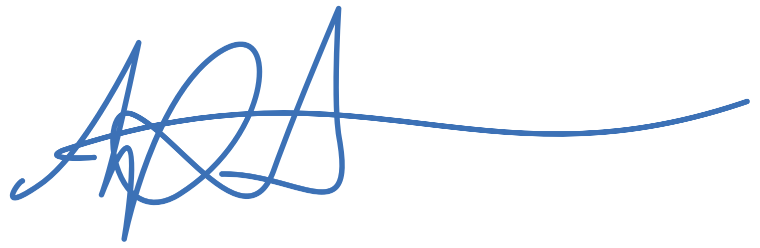

Mike Hawes

Chief Executive
The Society of Motor Manufacturers and Traders (SMMT)

This *State of the Automotive Nation* report comes at a pivotal moment for the UK industry. One year into both the Modern Industrial Strategy and Trade Strategy, it is right to take stock. The direction of travel is positive, but the context has become more complex and more volatile over the past 12 months.

Against that difficult environment at home and abroad, the priority is clear: a relentless focus on British competitiveness. This means controlling what is within the UK's gift at home while working closely with allies and industry to navigate the external pressures and uncertainties that will continue to emerge and shape the remainder of this decade and beyond. The new government must deliver clear policy direction and help create immediate results in the face of urgent economic and trade headwinds.

The Modern Industrial Strategy is a good start and there has been progress in a number of areas, but much more remains to be done. The gap between ambition and execution must close if the UK is to secure competitive advantage in an interventionist and increasingly protectionist global market. For automotive, that means turning more of the red lights to investment into green across the three pillars that will determine success: manufacturing competitiveness and supply chain resilience, fair and open trade, and a sustainable pathway to decarbonisation.

Refining the policies which currently hinder or curtail investment and innovation will help foster a globally competitive manufacturing base, as well as a healthy and expanding domestic market, one which is increasingly zero emission. The more progress made across each of these pillars, the greater the UK's chances are of securing jobs, achieving shared climate ambitions and delivering long-term economic growth.

This report sets out a blueprint for the new administration highlighting the policy areas most in need of attention. With favourable enabling conditions, success can be measured against three prizes by 2030:

1. **The UK firmly back among the world's top 15 automotive manufacturing locations, producing a million vehicles a year – supporting high-value jobs and economic activity across the country.**
2. **A thriving new car market of 2.2 million units – accelerating decarbonisation, fleet renewal and putting production volumes on a sustainable trajectory towards 2035.**
3. **The UK's position as a £110 billion plus automotive trade hub retained – increasing the value of exports and reinforcing automotive as one of the UK's leading export sectors.**

Put simply, a win for automotive is a win for the UK – and, given the sector's deep integration across supply chains and markets, a win for Europe too. The Modern Industrial Strategy seeks to unleash the UK's advanced manufacturing capability. It is now time for government to take its foot off the brakes and apply the accelerator in pursuit of a successful tomorrow.

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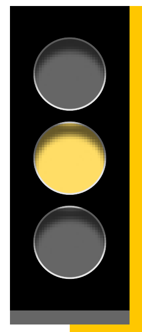
A BLUEPRINT FOR 2030: DRIVING THE FUTURE TOGETHER

INDUSTRIAL STRATEGY & SUPPLY CHAIN RESILIENCE

Drive competitiveness and supply chain resilience to secure UK advantage and new investment to become a top 15 manufacturing hub by 2030 and deliver Government's 1.3m vehicle production ambition by 2035, by:

- Making the cost of business energy internationally competitive
- Upskilling the workforce of tomorrow
- Landing supply chain localisation opportunities and building economic security

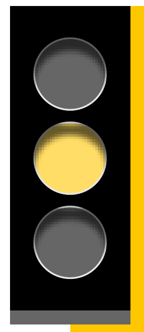


Good progress to date, but energy costs, skills, and supply chain localisation and diversification remain key areas requiring delivery

FAIR & OPEN TRADE ROUTES

Maintain the UK's critical trade relationships and tackle competitiveness amid fierce international competition and unprecedented challenges, with a focus on:

- EU: "Made in Europe" & Rules of Origin
- USA: Economic Prosperity Deal (EPD) and enhanced trade partnership
- International competitiveness and the UK as an investment destination
- Trade defence in a volatile geopolitical environment

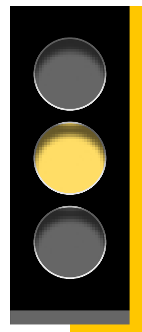


Rising trade protectionism raises significant concerns requiring immediate actions to protect critical UK interests in relations with key trading partners

A SUSTAINABLE & CONNECTED ZEV TRANSITION

Urgently review the zero emission transition and update regulations to reflect market reality and global conditions, to ensure a sustainable transition that supports consumers and UK industry, including:

- Support the decarbonisation of all market segments in partnership with industry
- Greater deployment of key enablers that underpin zero emission mobility
- Seize the opportunities of connected, self-driving and software-defined vehicles in the UK



Significant concerns driven by unsustainable cost of compliance, but opportunities exist to reset trajectories and capitalise on new investment and technology deployment

MAKING PROGRESS ACROSS THE BOARD WILL UNLEASH THE UK'S MANUFACTURING AND MARKET POTENTIAL

BY 2030

- Return the UK to the top 15 manufacturing locations
- Achieve a domestic market of 2.2 million new passenger vehicles with zero emission vehicles the natural choice for most drivers
- Maintain and increase £110bn+ trade hub status, supporting increase in value of UK automotive exports

OPPORTUNITY AUTO

UK MANUFACTURING COMPETITIVENESS: REALISING THE OPPORTUNITY OF INDUSTRIAL STRATEGY FOR ECONOMIC SECURITY AND SUPPLY CHAIN RESILIENCE

INDUSTRIAL STRATEGY AND SUPPLY CHAIN RESILIENCE

Drive competitiveness and supply chain resilience to secure UK advantage and new investment to become a top 15 manufacturing hub by 2030 and deliver Government's 1.3m vehicle production ambition by 2035, by:

- Reducing the cost of business energy
- Supporting for the workforce of tomorrow
- Landing supply chain localisation opportunities and building economic security

- Publication of 10-year Industrial Strategy and Advanced Manufacturing Sector Plan with automotive as an IS-8 frontier sector
- Introduction of BICS flagship electricity cost reduction measure with broad automotive eligibility
- Further steps to reduce business energy policy costs including electricity and gas for manufacturing
- Boost supply chain resilience by linking the Industrial Strategy supply chain centre to automotive by localising key commodities to capitalise on SMMT's identified £4.6bn opportunity
- Disburse the full £4bn funding from 2025-2035 for DRIVE35 transformation programme and expand eligibility criteria to maximise beneficiaries across the full value chain
- Develop clear mechanisms for vehicle regulation and pursue proportionate alignment with key global markets
- Align the UK Carbon Border Adjustment Mechanism and UK ETS schemes with EU counterparts to avoid added costs and administrative burden on automotive suppliers
- Publish and deliver the Advanced Manufacturing Skills Sector Plan and implement skills reforms
- Delivery of energy system and network reform to deliver reduced costs and grid connection prioritisation for frontier sectors

THE PRIZE

Return the UK to the top 15 manufacturing locations by 2030 and deliver a positive regulatory environment for UK Automotive

The launch of a 10-year Modern Industrial Strategy in June 2025 was a welcome and significant development which the automotive industry had long called for. The strategy recognises automotive as pivotal to advanced manufacturing and sets out an ambitious target of 1.3 million vehicles produced in the UK by 2035.

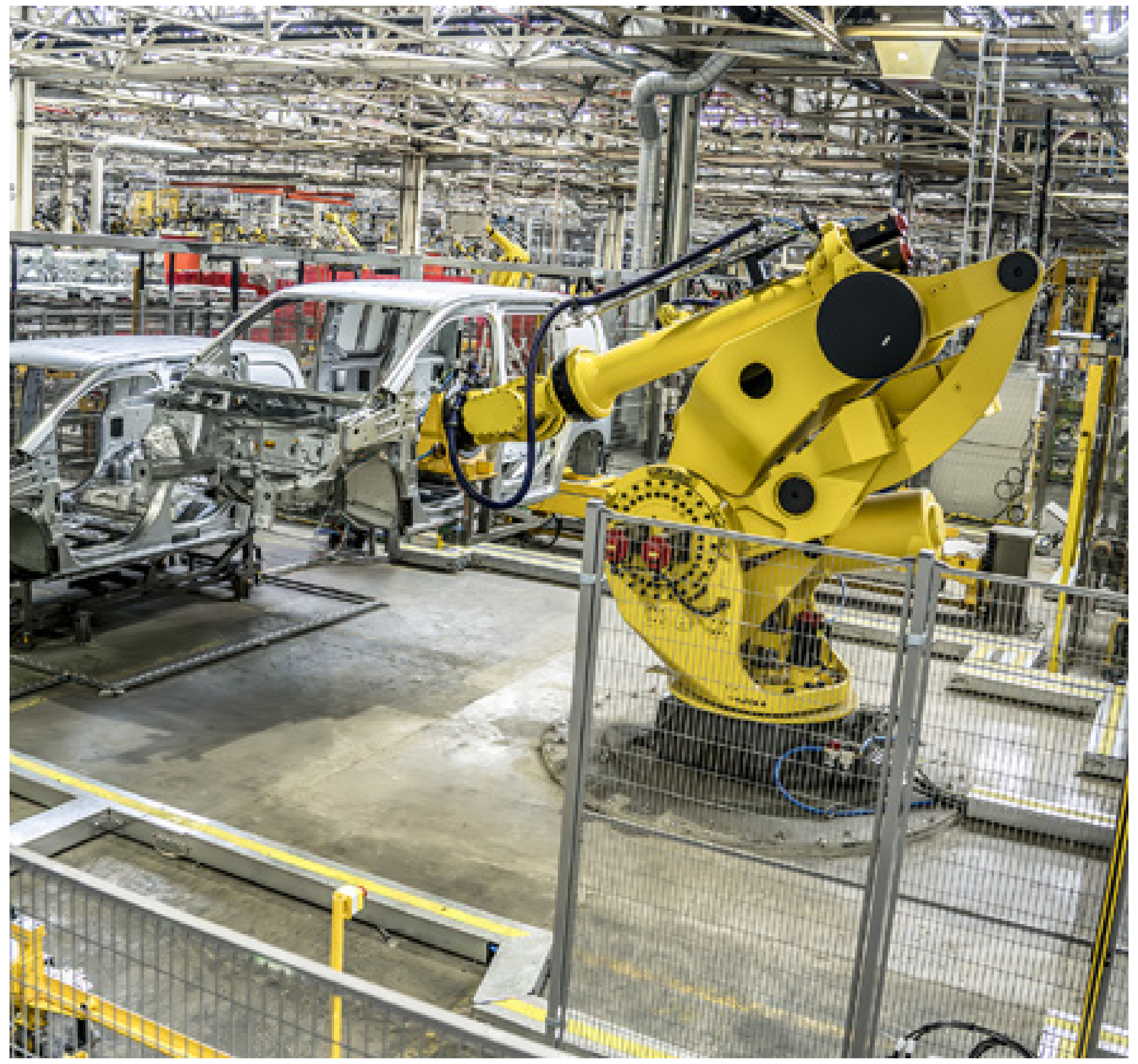
One year on, the direction of travel remains the right one, but delivery must accelerate if ambition is to translate into competitive advantage. The test is no longer whether the framework exists; it is whether enough of the red flag policy challenges go green in time to secure the next wave of investment decisions.

Clear progress has been made, with the flagship British Industrial Competitiveness Scheme (BICS) to reduce energy bills the most impactful measure to date. 72.5% of respondents to SMMT's 2026 UK Automotive Leaders Barometer, a survey of CEOs from key automotive companies covering more than 98% of UK production, highlights effective delivery of energy and infrastructure policy would have a positive impact.[1]

It is also clear, however, that there is much still to do to instil confidence in the business community. Difficult decisions must be taken in partnership with industry with a relentless focus on closing the policy and cost gap with international competitors on the issues that matter most to investors: energy costs, supply chain resilience, skills, regulatory frameworks, and speed of execution. Industry confidence is there, but it is conditional and time sensitive.

UK vehicle production has faced a series of structural changes and external shocks, from Brexit, Covid and conflicts in Ukraine and the Middle East to higher tariffs and taxes on imported products, as well as a cyberattack affecting the sector's highest-value producer. The latest independent outlook, however, suggests volumes will rise by more than 10% between 2025 and 2030, and by 23% by 2035. Under an optimistic scenario, with new models and investment secured for existing plants, production could exceed one million units by 2030 and reach 1.14 million units by 2035 – more than 50% above 2025 levels.

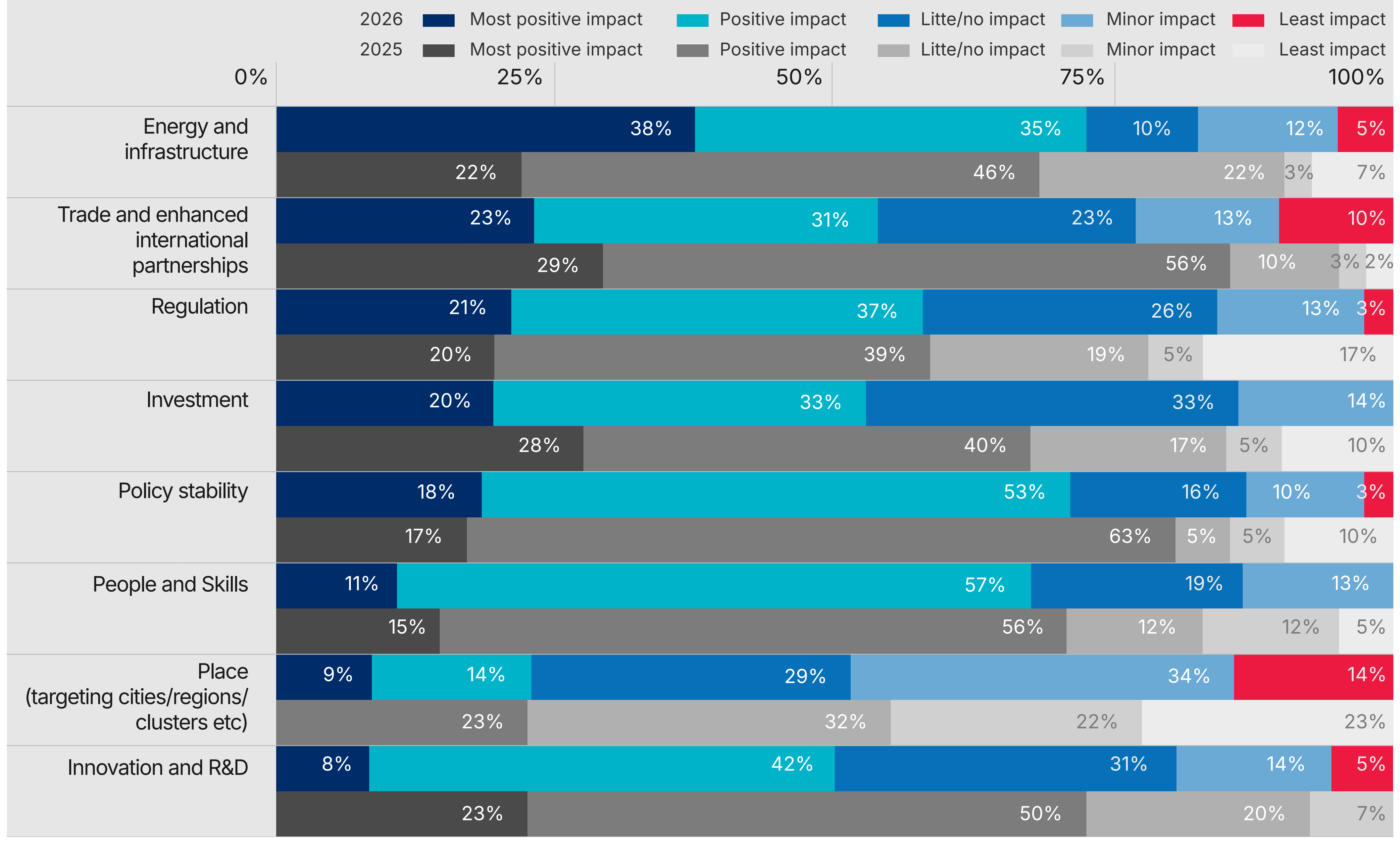
> *"We need to have a competitive energy cost strategy for UK industry to compete globally."*
>
> *CEO of a component manufacturer*



1 SMMT UK Business Leaders Barometer, Q2 2026

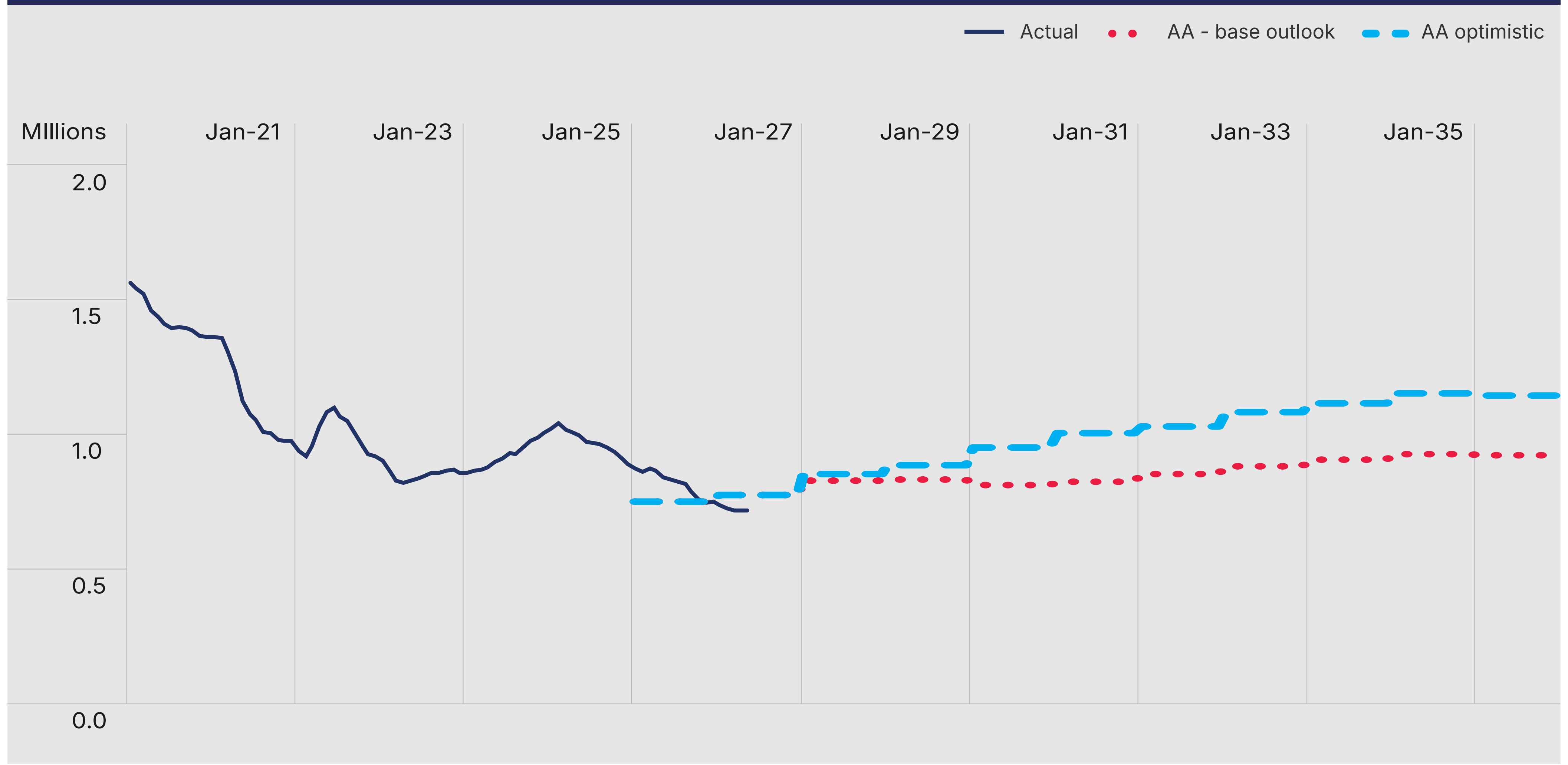
AUTOMOTIVE BUSINESS LEADERS" VIEW ON INDUSTRIAL STRATEGY ONE YEAR ON

SOURCE: SMMT UK BUSINESS LEADERS BAROMETER, Q2 2026



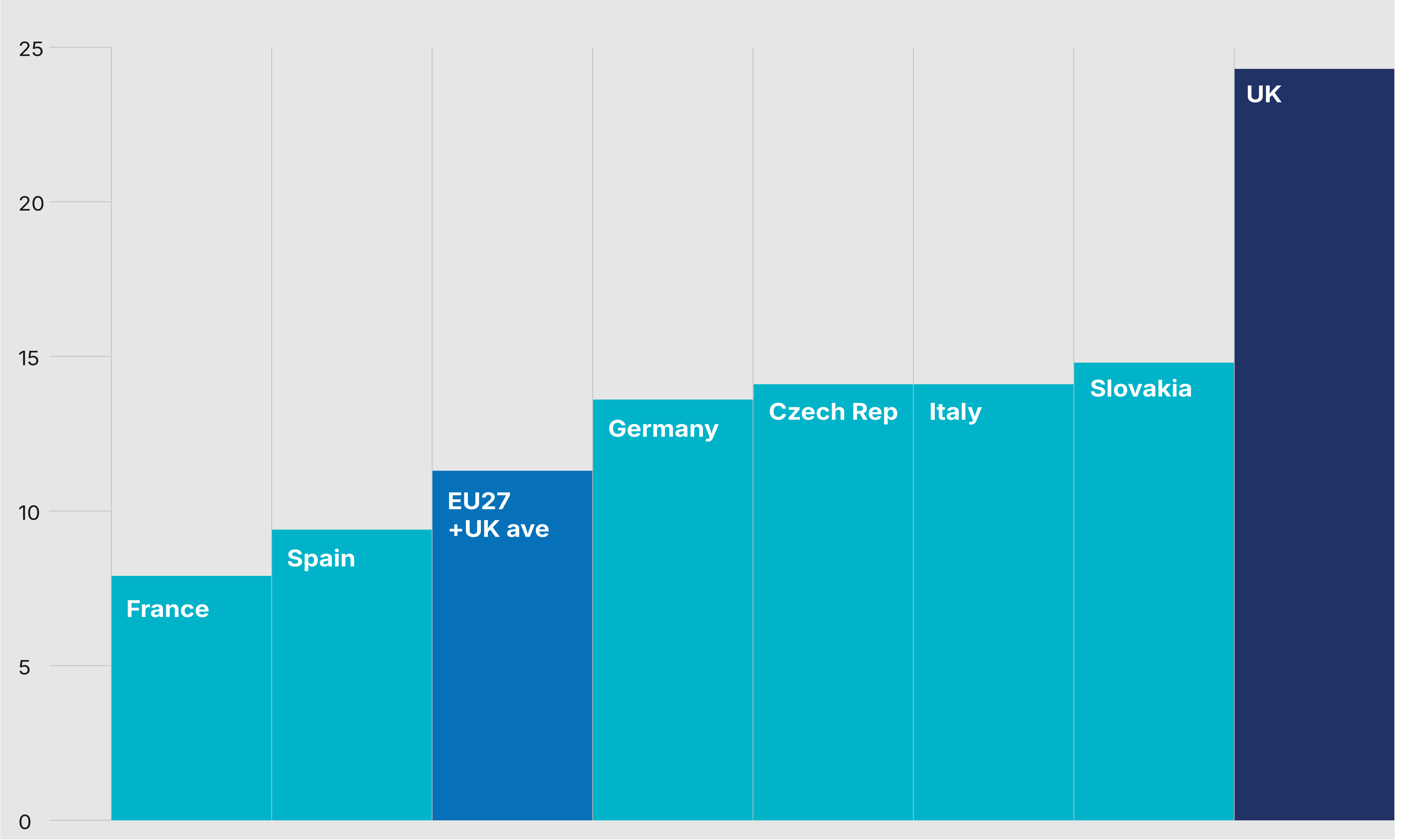
CAR AND LIGHT VEHICLE PRODUCTION AUTOANALYSIS OUTLOOK (MAR '26)

SOURCE: AUTOANALYSIS

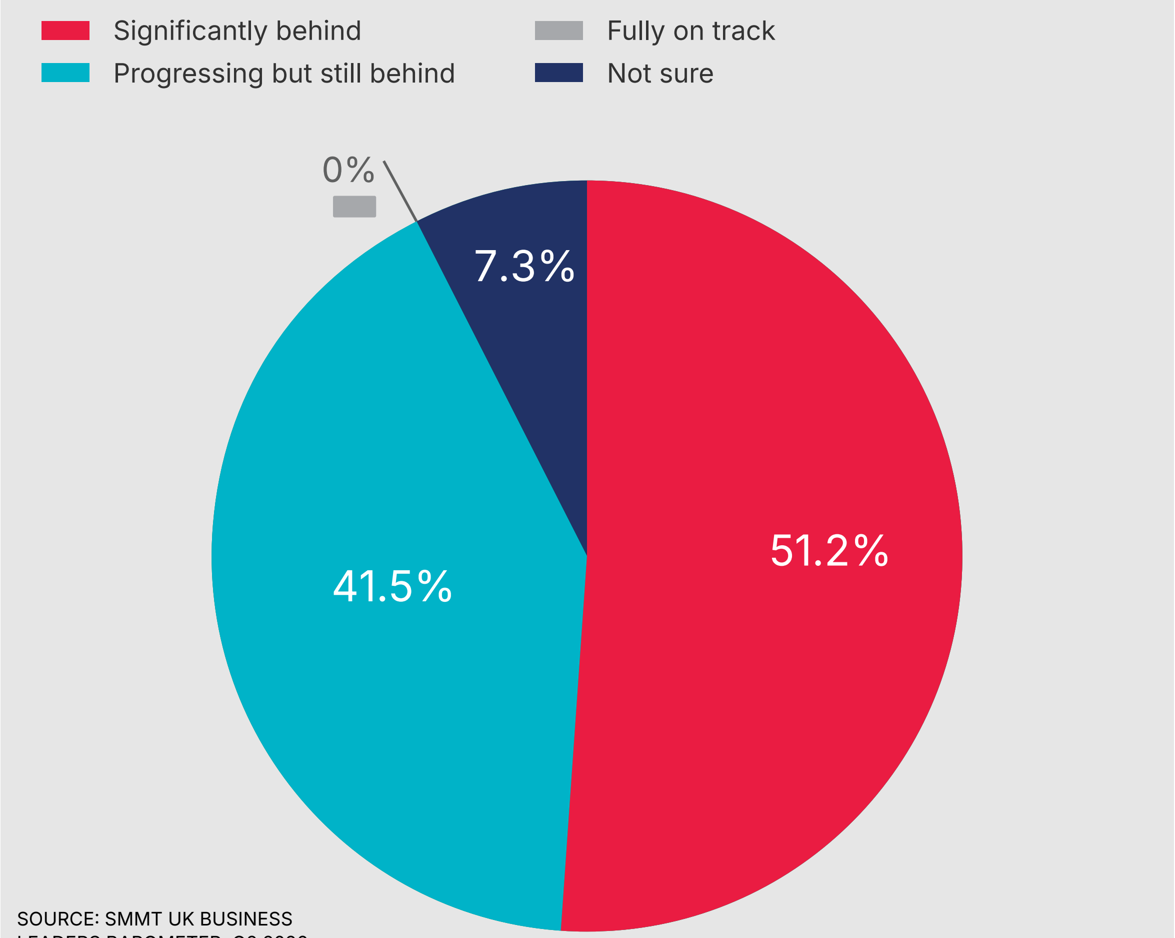


COMPARISON OF UK ENERGY PRICES VERSUS EUROPEAN COMPETITORS
ELECTRICITY, P/KWH (INCL TAX), 2025

SOURCE: DEPARTMENT FOR ENERGY SECURITY AND NET ZERO (DESNZ)



DO YOU BELIEVE THE UK'S ZEV SUPPLY CHAIN IS READY TO SUPPORT A SUCCESSFUL UK ZEV MANUFACTURING TRANSITION?



SOURCE: SMMT UK BUSINESS LEADERS BAROMETER, Q2 2026

> "The UK needs to create a level playing field with the EU and match energy prices with theirs to create a more considered competitive environment."
>
> *CEO of a Tier 1 supplier*

CLOSING THE COMPETITIVENESS GAP THROUGH ENERGY COST REDUCTION AND REFORM

BICS offers welcome short-term relief, and the new eligibility criteria are expected to, for the first time, include a wide range of automotive manufacturers and suppliers who compete in a global marketplace. This is hugely welcome. The ongoing conflict in the Middle East and soaring global energy prices, however, have eroded some of the benefits and energy remains a key issue for UK manufacturing competitiveness requiring more direct action. BICS is just the first step.

Business energy costs remain a barrier to growth and a disincentive to invest in the UK versus other global locations including the EU.

The automotive industry is changing more rapidly than at any time in the past century with the move to electrification. Similarly fundamental changes are taking place in the UK's electricity system, meaning UK manufacturing competitiveness will only be possible if the automotive industry can access more affordable, renewable and zero carbon electricity. Data from the Department for Energy Security and Net Zero (DESNZ) consistently shows that for large industrial energy users, the UK has the highest electricity prices in Europe, and on average in 2025, 115% above the combined EU27 and UK average.[2] The introduction of BICS could reduce that gap to 60% and is a welcome first step, but much larger reform of energy prices is still required. Members are also increasingly concerned that non-commodity costs (like distribution, transition and security of supply) are increasing and will erode the benefits of BICS.

Industry is supportive of government's long-term ambitions to accelerate deployment of renewable energy, enhance the grid, accelerate grid connections and overhaul regulation, but that must not come at the expense of what is needed today to bridge the gap and retain advanced manufacturing in the UK. In this next phase, automotive already needs to be seen as a core system actor shaping electricity supply, demand, flexibility and investment. Manufacturing competitiveness depends on successful electrification, but the scale and pace of transformation demanded of the automotive industry requires targeted action, including support to boost consumer confidence.

Government needs to engage more closely with downstream users like automotive – particularly those who compete globally and have a significant role to play in the energy system – to unlock a key barrier repeatedly identified by business leaders to potential investment propositions and competitive manufacturing.

The UK and European electricity markets are also increasingly linked. The UK government must work with the EU, Member States and other European neighbours to identify areas of cooperation to reduce electricity costs allied to sustainability policy that is simplified and calibrated to help manufacturers and suppliers to produce and to trade across borders. At the next bilateral summit, for example, the UK and EU are expected to announce a conclusion of negotiations to link UK and EU Emissions Trading Schemes (ETS). This should create the conditions for goods originating in the EU and UK to benefit from mutual exemptions from their respective Carbon Border Adjustment Mechanisms (CBAM). This will help reduce the cost and administrative burden on business and enhance international competitiveness as part of much needed reforms that must deliver real terms savings for non-domestic energy users and traders alike.

BUILDING SUPPLY CHAIN RESILIENCE AND ECONOMIC SECURITY

More work is needed to bridge the gap between industrial strategy and economic security. This is most prevalent in the need for supply chain localisation and resilience to anchor UK capability, capacity and good jobs after the bruising years that have followed the pandemic. The launch of a Supply Chain Centre is welcome, but must be the start of more meaningful engagement between Government and industry on the vulnerabilities and opportunities that face automotive and advanced manufacturing in today's climate.

SMMT analysis shows a £4.6 billion domestic sourcing opportunity by the end of the decade, contingent on the UK supply chain demonstrating its competitiveness.[3] This spans both electric vehicle components, such as batteries, and critical traditional systems, such as seat assemblies, where local capability remains essential. Capturing this opportunity will depend on the right government support, targeted at the areas that matter most to unlock investment and strengthen competitiveness across the supply chain.

2 UK Gov / DESNZ International non-domestic energy prices (May 2026)

3 SMMT Opportunity Auto: Built for Growth, April 2026

Industry has invested hard in industrial transformation. Significant opportunities exist to support both next generation electric and other vehicle technologies, build domestic capacity and resilience, and support value creation in pursuit of trade opportunities to maximise the UK's free trade agreements. Existing automotive manufacturing and traditional commodities also remain central to the UK's value proposition, with interiors, body structures, chassis and exterior components, for example, critical to local supply chain output. This now needs to be backed in full with an injection of creativity and urgency.

Automotive is a welcome beneficiary of current government funding through DRIVE35 and associated programmes – potentially worth more than £4 billion to 2035 – but now is the time to rapidly disburse these funds with increased eligibility to benefit the full value chain, catalyse private investment and land the opportunities identified.

Automotive supply chains underpin more than just the motor industry. They are a lynchpin in advanced manufacturing capabilities within the sector and beyond – a strong UK supply chain supports everything from decarbonisation to defence and security, aerospace to renewables, offering added capacity, sovereign capability and critical engineering expertise.

Economic shocks are also inevitable. Recent events, from international conflicts overseas to cyberattacks at home, are stark reminders of the potential negative impacts on competitiveness and resilience measures. Further discussions are needed to identify key risks and vulnerabilities, and to co-develop targeted measures that strengthen the UK's resilience to future disruptions, align with international peers and reassure investors that the UK is a reliable place to invest and do business.

More immediate progress and leadership is needed across this area.

PEOPLE & SKILLS AT HEART OF INDUSTRY, NOT YET INDUSTRIAL STRATEGY

SMMT's latest Automotive Business Leaders Barometer puts people and skills as the number one area for planned investment, with more than three quarters (75.6%) planning investment in the next 12 months. New products and AI also score highly, while more than half (53.3%) plan to enhance existing facilities and a quarter (24.4%) plan to invest in new facilities over the next year.

The "People and Skills" pillar of the Modern Industrial Strategy committed to targeted interventions to bridge critical gaps in the UK workforce by aligning education, and specifically technical training, with employment demand. Developments in skills policy, however, have seen a slower rollout than other areas of Industrial Strategy, with the launch of apprenticeship units only taking place in April 2026 and funding rules shared thereafter. Meanwhile, the sector continues to invest despite the constraints it faces, with apprentices up 33% following 1,700 new starts in 2025. There is clear intent to invest in the workforce, with business leaders expecting six in 10 (61%) current roles to require new skills by 2035.[4]

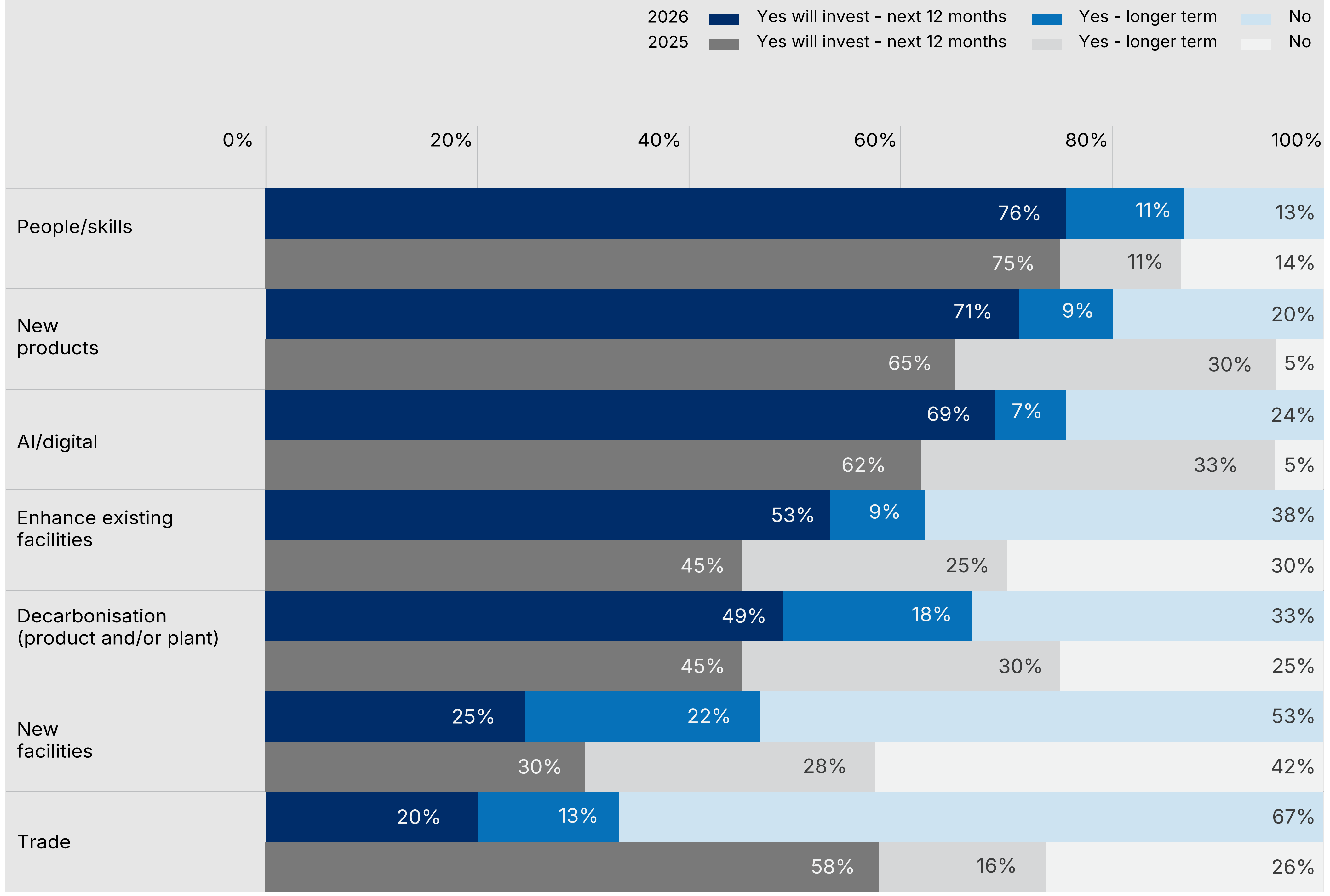
Apprenticeship units represent a first step in government delivering on long-promised flexibility in how businesses can use their apprenticeship levy funds to provide workforce training and recruitment. UK Automotive welcomes the policy intent and recognises that many of the units introduced are sectorally relevant. Current unit training is focused on Levels 2 and 3 but future provision must target higher-level skills. If Skills England and DWP prioritise only lower-level interventions, the industry risks failing to develop the advanced domestic capabilities needed for future competitiveness.

While automotive is firmly supportive of policy interventions to support individuals not in employment, education or training (NEET), the decision to defund Level 7 apprenticeships and place an almost singular focus on entry level roles will not help foster the advanced skills that manufacturing demands in increasing volumes to be a global leader in critical technologies. The omission of higher skills funding places UK factories at a clear disadvantage compared with European and global counterparts. Forthcoming sector jobs plans must bring more tangible benefits to imbue increased confidence in the sector and build out the talent pipeline for the 1.3 million vehicle production ambitions laid out in the Strategy.

4 National Apprenticeship Weekly survey by SMMT major automotive employers, February 2026. Total number of apprentices compares full-year 2025 with full-year 2024; total number of new starts compares September 2025 with September 2024, when the new academic year begins.

INVESTMENT - BASED ON CURRENT ECONOMIC CONDITIONS, WHICH OF THE FOLLOWING BEST DESCRIBES YOUR BUSINESS'S CURRENT INVESTMENT ACTIVITY AND EXPECTATIONS IN THE UK?

SOURCE: SMMT UK BUSINESS LEADERS BAROMETER, Q2 2026

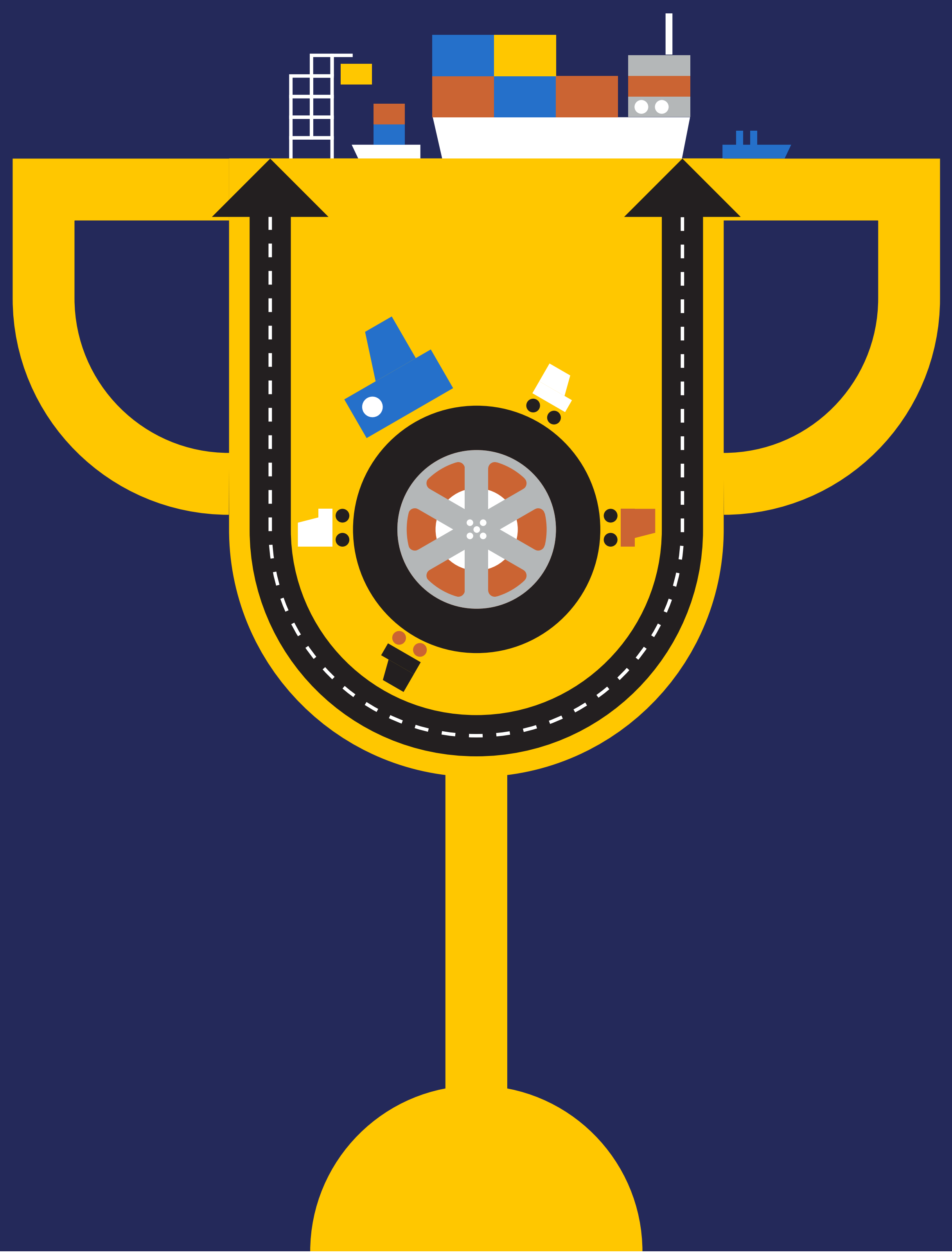


CONCLUSION

The Modern Industrial Strategy now stands as a reference on which industry can rely. It is highly ambitious and positions automotive as a leading sector. We share that ambition. To succeed, however, government, in partnership with industry, must deliver at pace, and be agile to existing and emerging challenges.

This starts with those issues highlighted in this report – energy costs, supply chain resilience and people. By removing critical obstacles and working closely with business, government can open the road to investment and industrial transformation, and in doing so return the UK to a top 15 automotive manufacturing location by the end of this decade, setting the benchmark for longer term success.

FAIR & OPEN TRADE: BUILDING TRUSTED TRADING PARTNERSHIPS AND KEEPING TRADE ROUTES FLOWING



FAIR AND OPEN TRADE ROUTES

Maintain the UK's critical trade relationships and tackle competitiveness in light of fierce international competition and unprecedented trade challenges, with a focus on:

- EU: "Made in Europe" and Rules of Origin
- USA: Economic Prosperity Deal (EPD) and enhanced trade partnership
- International competitiveness and the UK as an investment destination
- Trade defence in a volatile geopolitical environment

- Secure full inclusion of UK Auto in all aspects of the EU's "Made in Europe" agenda
- Implement facilitative EU-UK Rules of Origin from 1 Jan 2027 to avoid 10% tariffs on electrified vehicles and batteries, reflecting industrial realities
- Maintain and improve the US-UK Economic Prosperity Deal and administration of the Tariff Rate Quota
- Negotiate long-term continuity and implementation of preferential trade with key export markets including India, Gulf Cooperation Council (GCC), Canada, Mexico and South Korea
- Pursue international harmonisation of vehicle standards and tackle UK automotive regulatory barriers in key markets including through the use of the new Ricardo Fund
- Pursue increased strategic alignment with the EU in areas of mutual benefit (e.g. Type Approval)
- Support launch of SMMT *Opportunity Auto* to promote UK inward investment and identify export opportunities to deliver economic growth
- Equip government with necessary powers to tackle acts of adverse economic pressure and outline a strategy to secure UK Automotive international trade competitiveness in the face of rising global imbalances

THE PRIZE

Maintain and increase £110bn+ trade hub status, supporting increase in value of UK exports

One year on from the government's Modern Industrial Strategy also marks a year since the launch of the revised Trade Strategy. For trade intensive sectors like automotive, these strategies must go hand in hand.

Over the last 12 months, the international trading environment has deteriorated with the rise of unprecedented trade challenges from both allies and competitors to protect their domestic manufacturing sectors. Notable challenges have arisen from "Made in Europe" provisions, the impact of US tariffs, the adoption of restrictive steel quotas, and the rise of low-cost manufacturers such as China expanding export reach at pace. All of these factors, alongside unsustainable domestic market conditions, make the UK systematically less competitive. The age of a rules-based trading system is rapidly being replaced with that of managed trade and systemic uncertainty. There are several policies of significant concern that must be addressed if the UK is to retain its status as a £110 billion trade hub annually, some of which need particular attention.

SMMT launched the *Opportunity Auto* campaign to make the case for the UK. The UK has all the fundamentals to compete globally with the right enabling conditions at home, and with trusted trading partners and open trade routes across the world. The sector needs UK government in lockstep, using all the levers available to secure investment, maintain market access, and robustly defend the interests ofthis leading export and strategic industrial sector.

The publication of the European Union's draft Industrial Accelerator Act in March 2026 aims to strengthen the EU's industrial base but has created a fundamental challenge for UK manufacturers trading with the EU. More than 10 years on from the referendum, automotive trade between the UK and EU has been a bright spot for both trading partners and mutually driven high value trade worth billions annually, particularly in electrified vehicles.

Automotive business leaders are unequivocal that the potential impact of "Made in Europe" is an existential threat to the UK automotive industry, and risks undermining UK and EU competitiveness and automotive production in Europe.

"The "Made in Europe" proposal is already impacting future investment decisions, which impact future business viability. This must be resolved as a priority."

Managing Director of a vehicle manufacturer

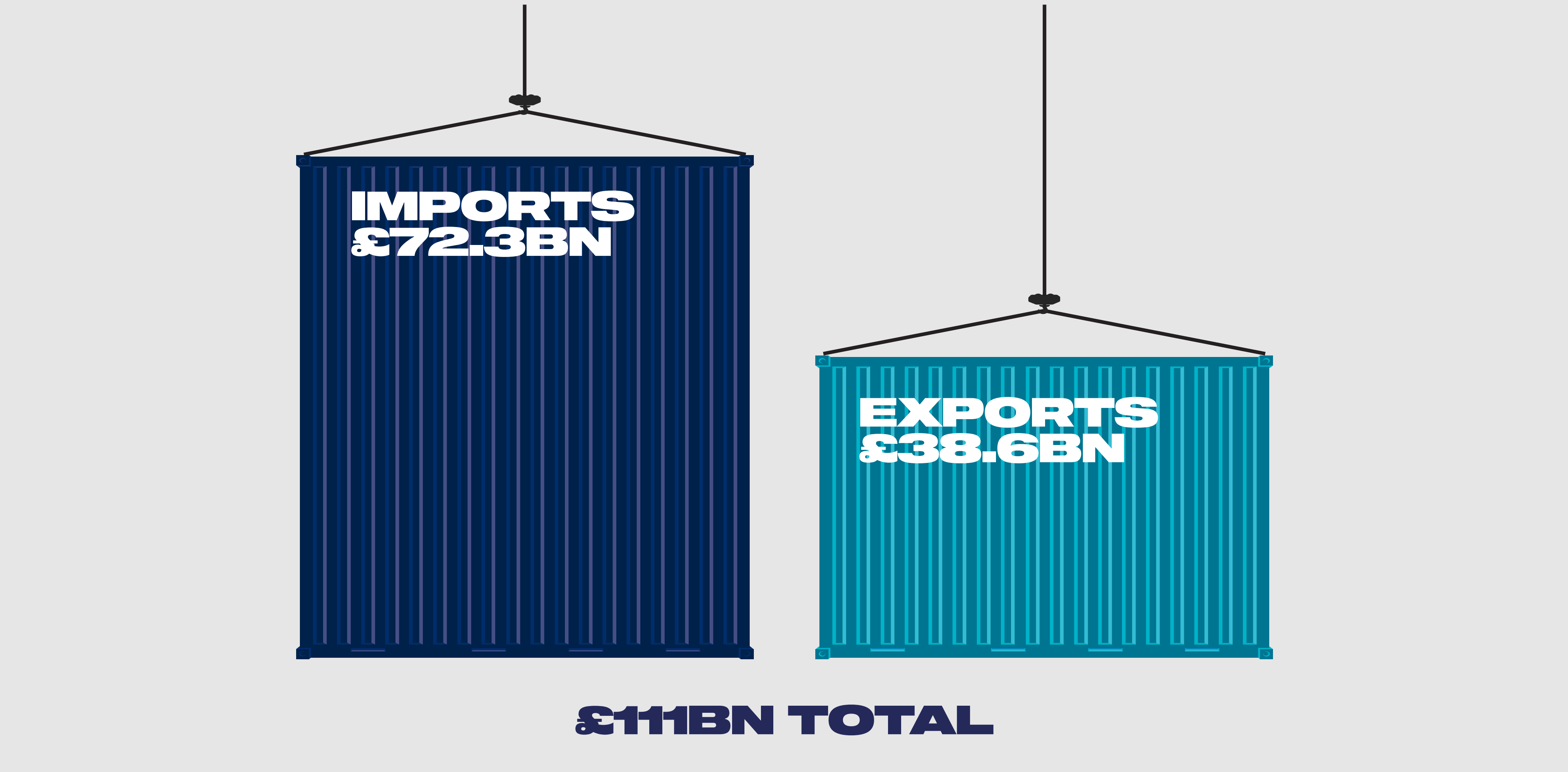
Urgent action is needed to find a mutually beneficial solution to stave off this threat by securing the UK's inclusion for the purposes of "Made in Europe" ensuring that all UK automotive content is considered equivalent to EU content, including both vehicle assembly and supply chain. Failure to do so would render UK-assembled vehicles uncompetitive in the European market while offering unfettered access under the terms of the EU-UK Trade and Co-operation Agreement secured after intense negotiations – which has strict content requirements and levelling playing field provisions which guide the trading relationship.

At the same time, those trade rules – specifically the rules of origin for electrified vehicles – risk applying the handbrake to this highly valued trade. They must be revisited by both parties in light of the shared challenge of securing and developing mature battery manufacturing capability in Europe as originally envisaged at the time of the agreement.

These are the leading trade issues with our largest trading partner facing automotive in 2026. The positive resolution of both issues is paramount to achieve the ambitions set out in the Industrial Strategy to supercharge UK vehicle production.

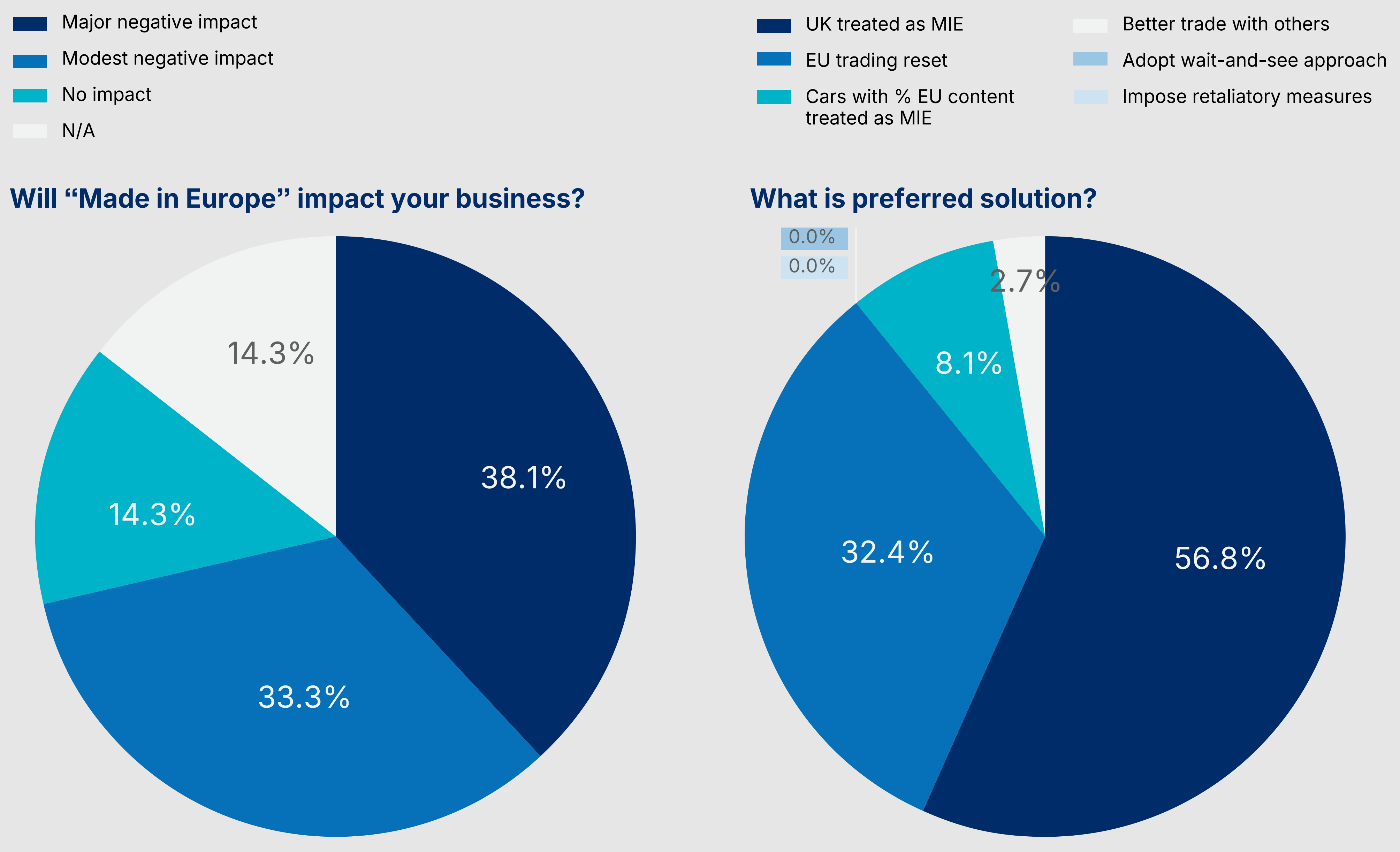
TOTAL AUTO TRADE VALUE 2025

Source: ONS



"MADE IN EUROPE" RISKS MAJOR THREAT TO UK MANUFACTURING

SOURCE: SMMT UK BUSINESS LEADERS BAROMETER, Q2 2026



WHY THE EU-UK AUTOMOTIVE RELATIONSHIP MATTERS TO EUROPE

€80bn

The value of the EU-UK automotive trading relationship

1.2m+

New passenger cars were imported by the UK from the EU in 2025, alongside 160,000 commercial vehicles

70%

Of automotive products imported into the UK come from the EU – worth €60 billion to the bloc

€15.8bn

Nearly 2 in 3 battery electric cars and half of all plug-in hybrids sold in the UK are imported from EU factories – worth a combined €15.8 billion

61%

Vehicles built in EU factories make up 61% of new car registrations in the UK – while UK-made cars are less than 3% of the EU market

No.1

The UK is the EU's number one vehicle export destination for all vehicles – and its biggest market for battery electric vehicles

TARIFFS, TARIFFS, TARIFFS

The last year saw another global shift towards even more volatility in the global trade environment and re-emergence of tariffs as a major risk to automotive trade.

The signing of the UK-US Economic Prosperity Deal was integral to support UK exporters and jobs as the second largest export market for UK-made vehicles. The new 100,000 passenger car Tariff Rate Quota at a 10% tariff lays a foundation for ongoing trade. The automotive sector now looks to the future to enhance that relationship, to improve administration of the quota and seek growth opportunities for this market segment. The EPD also sets a foundation for cooperation in other areas, including tariffs on heavy duty vehicles and supply chain. The UK must continue to negotiate with US counterparts to promote the opportunities of this mutual, high value trading relationship.

The UK FTA programme is delivering the last objectives of the current negotiating agenda, with little evidence of what might come next for UK trade policy priorities. The prospect of launching new negotiations or engaging new partners has not been raised to date. The announcement of an agreement in principle with the Gulf Cooperation Council (GCC) is welcome; however, recent precedents suggest caution in assessing potential benefits.

While automotive interests remain pivotal in FTA negotiations, recent negotiations resulted in major compromises and non-reciprocal treatment in automotive market access, often with a limited consultative process at critical times of discussions. The excessive use of non-disclosure agreements has also systematically affected the ability for industry to discuss vital trade-offs in time-critical talks, which must be fundamentally reviewed. The process of announcement, disclosure, signature, ratification and implementation remains beset by lack of transparency. For example, six months after the closure of negotiations, the crucial UK-South Korea upgraded FTA remains undisclosed, with businesses unable to assess the outcome in key areas of interest for automotive and no visibility of potential implementation timeframes.

Even more challenging will be the implementation and operation of new agreements such as India, with UK car manufacturers facing a new Tariff Rate Quota – an increasing feature of the international trade landscape – but remaining in the dark on how to make use of the quota for finished vehicles less than a month from entry into force. The capability to deal with these new features must be developed within the UK government and in particular within the Department of Business and Trade to ensure expertise is available to maximise the benefits of such deals and mitigate any issues arising.

INTERNATIONAL REGULATORY DIALOGUE SUPPORTING MARKET ACCESS

Regulatory frameworks play an increasing role in international trade, with both free trade and non-preferential trading partners. Government must work closely with industry and further explore international harmonisation of vehicle standards at both UN and EU levels where there could be benefits for manufacturers. Industry is generally supportive of increased strategic alignment with the EU in areas of mutual demonstrable benefit, for example Type Approval, with a proportionate approach to small volume and GB-only production.

The flagship Ricardo Fund was also a welcome concept, but there has yet to be any proactive or visible progress that can unlock technical barriers to trade in a sector where market access is foundational to export success.

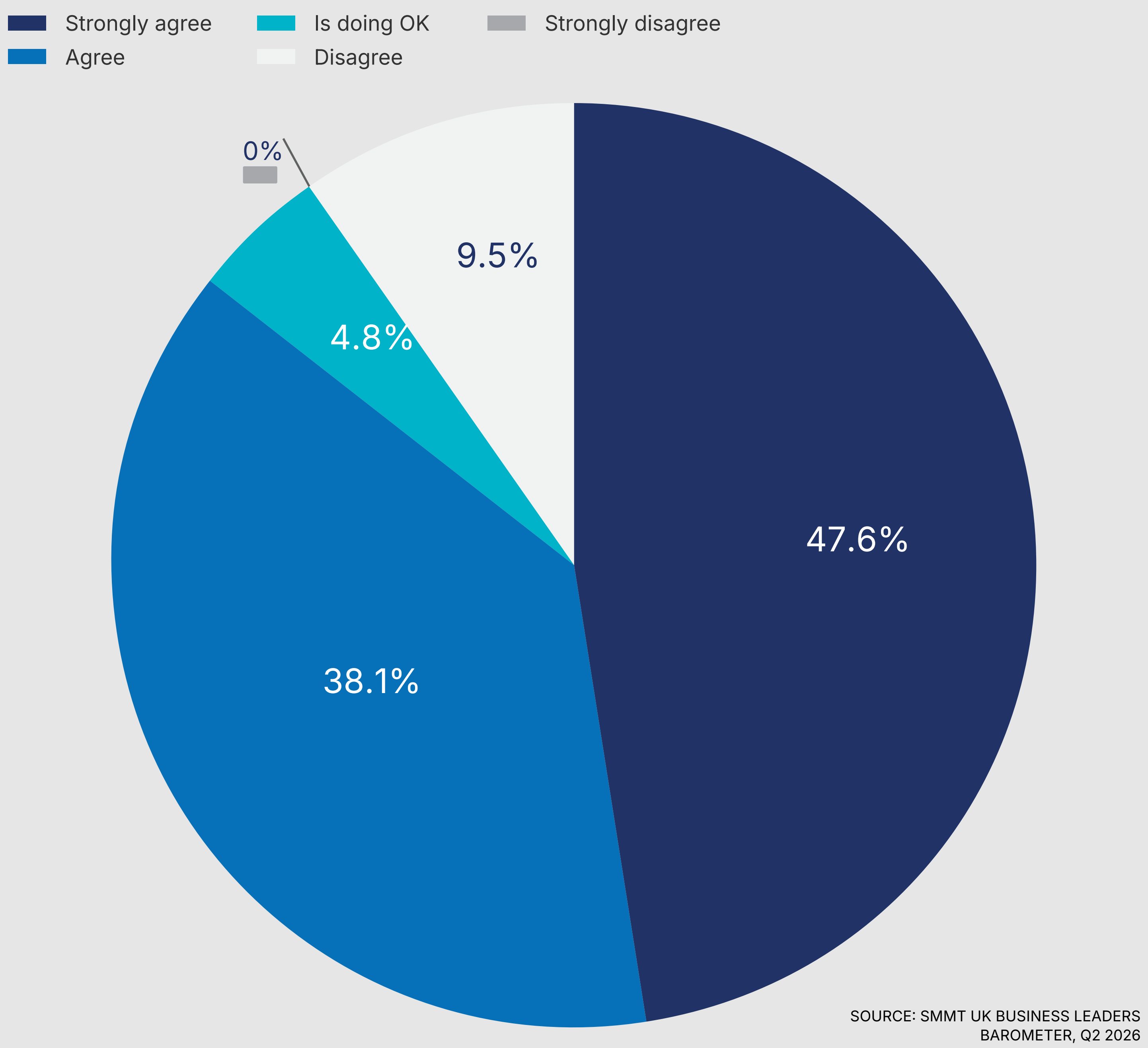
SECURING UK INTERESTS AT HOME AND ABROAD

In an increasingly volatile global environment, fierce competition brings new challenges to UK competitiveness and exports. International trade protectionism has risen and traditional free trade frameworks face increasing pressure. The Trade Strategy had a significant focus on protecting the economy and the recent SMMT UK Automotive Business Leaders Barometer reflects the need to take a more proactive stance to defend the sector from international headwinds.

More engagement and discussion with affected sectors could be beneficial in this regard and shape a more proactive and assertive approach by the UK government alongside industry to ensure the right toolkit is available. Proportionate action must be weighed against the urgency and severity of potential threats. This should be anchored to evidence-based investigations, with legal certainty, and clear routes for interested parties to provide input to avoid unintended consequences.

The sector supports the need to deter acts of adverse economic pressure and tackle unfair competition in parallel to the continuous pursuit of domestic competitiveness enablers that help the UK compete in this strategic global sector.

SHOULD THE UK GOVERNMENT BE TAKING A MORE PROACTIVE STANCE ON TRADE DEFENCE TO PROTECT THE UK AUTOMOTIVE SECTOR IN LIGHT OF INCREASED THREATS FROM GLOBAL COMPETITORS AND TRADING PARTNERS?



SOURCE: SMMT UK BUSINESS LEADERS BAROMETER, Q2 2026

> "As a net exporter to EU27, we would be in severe difficulty if our products were excluded. Not only would we have the tariff damage from Brexit, but there would be a disincentive for our products to be sourced by EU OEMs. It would be an existential threat for the entire industry."
>
> *CEO of a tier 1 supplier*

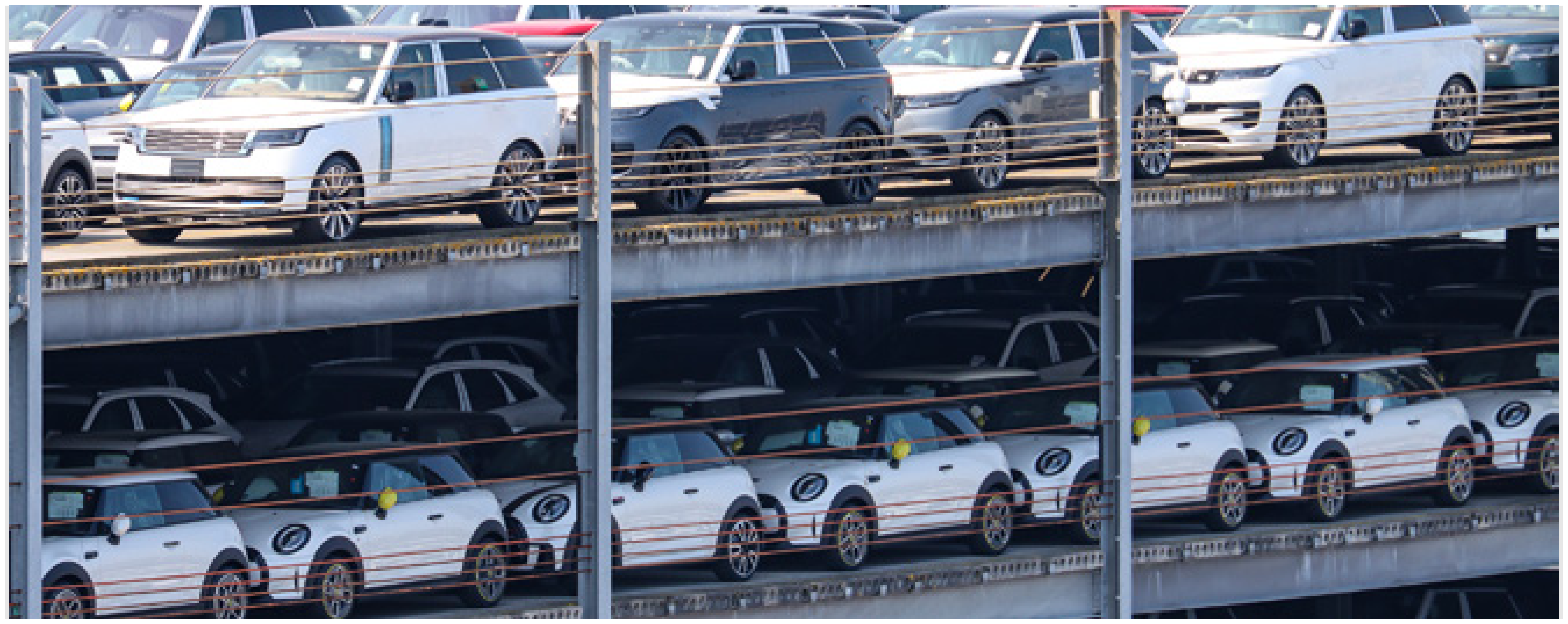
CONCLUSION

The automotive sector is global by its nature. The UK exports to more than 140 countries worldwide, with consumer choice driving imports into the UK market. As a trade-intensive sector, the relationship between industrial strategy and trade strategy cannot be divided.

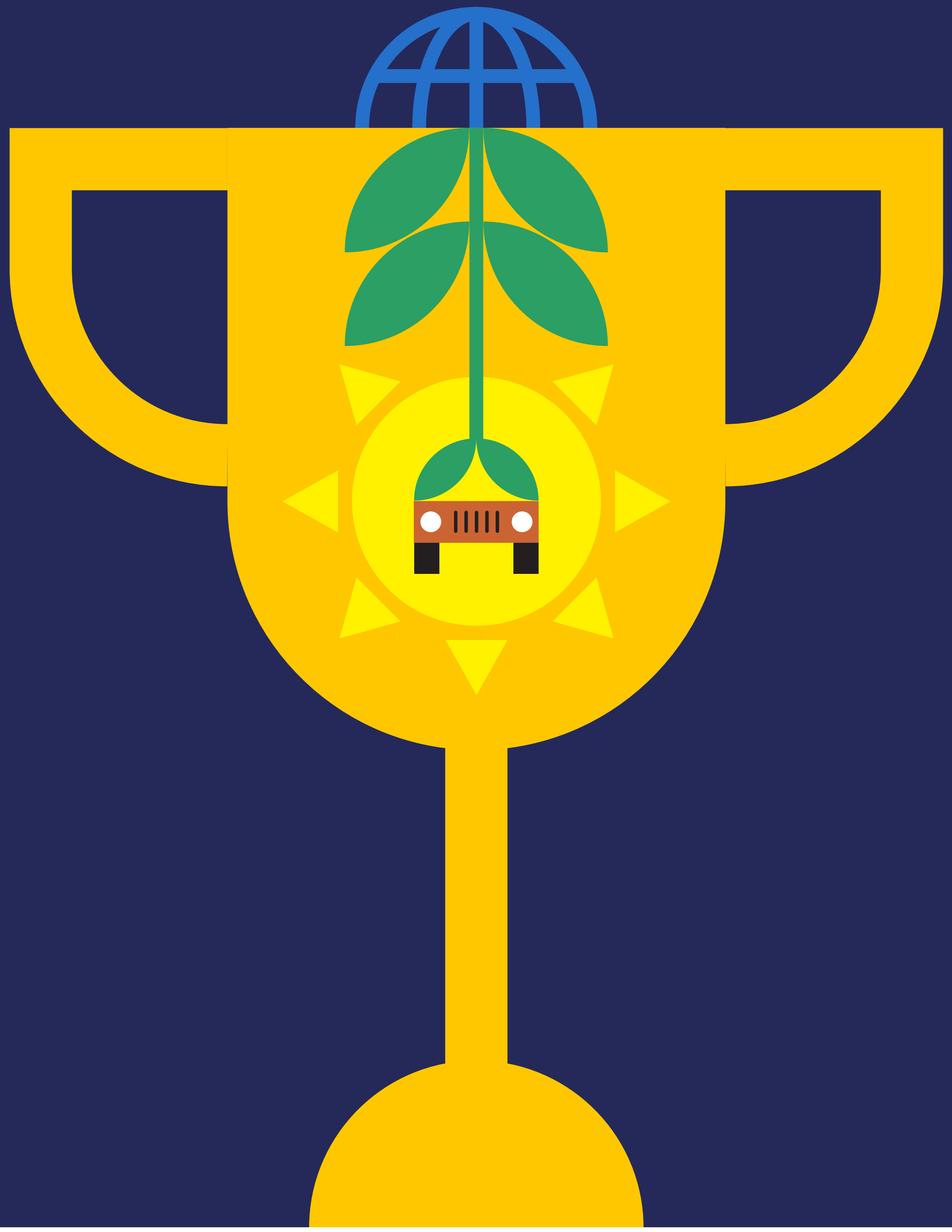
Increasingly reactive trade and industrial policies introduced by trade partners are having ever greater impact – potentially with a destructive effect on UK trade interests. Such measures can systematically disadvantage UK products in our key export markets – from local content requirements for fleet and private incentives, to luxury car taxes that disproportionately affect volume and premium UK vehicle exporters respectively. This must be addressed to ensure the UK competes on a level playing field.

Increased protectionism and market access issues erode UK competitiveness, and time-critical issues, in particular between the EU and the UK, must be resolved before the end of this year. So too, the pipeline of trade negotiations has waned without clear sight of future ambitions for new or upgraded frameworks, and a robust approach to market access and fair trade is needed to realise the vision government strategies hope to deliver.

Beyond 2026, the UK's relationships with key trading partners and the government's ability to balance domestic and international interests will dictate the next phase of UK automotive investment and opportunity.



A SUSTAINABLE TRANSITION FOR LONG TERM SUCCESS



A SUSTAINABLE AND CONNECTED ZEV TRANSITION

Urgently review the zero emission transition and update regulations to reflect market reality and global conditions, to ensure a sustainable transition that supports consumers and UK industry, including:

- Support the decarbonisation of all market segments in partnership with industry.
- Greater deployment of key enablers that underpin zero emission mobility
- Seize the opportunities of connected and software-defined vehicles in the UK

- Complete a review of the ZEV transition and reform the VETS order by end of 2026, for implementation in 2027, to support a sustainable transition to zero
- Legislate the post-2030 decarbonisation framework for cars and vans to ensure a sustainable transition to 2035
- Enhance the rollout of charging and refuelling infrastructure across the entirety of the UK and maximise efforts to decarbonise the UK parc and explore alternative fuels
- Deliver an HDV decarbonisation framework based on CO_2 following the conclusion of industry consultation
- Introduce and maintain UK battery regulations, chemicals, and circular economy that ensure alignment or reciprocity with EU / key trade markets
- Maintain consumer and business incentives for ZEV market transition in all segments
- Continue the rollout of enabling legislation to deploy self-driving vehicles in the UK and position the UK as a Physical AI leader in Europe
- Operate a tax system that supports consumers in switching to ZEVs, and delay the introduction of eVED or equivalent motor taxation until after 2030
- Enact energy market reforms that support manufacturing and explore opportunities for automotive in the energy value chain (e.g. Vehicle to Grid / V2G)

THE PRIZE

Achieve a domestic market of 2.2 million new passenger vehicles with zero emission vehicles the natural choice for most drivers

Britain's transition towards zero-emission motoring has accelerated at an incredible pace. Among major European markets, the UK had the highest share of new zero emission car registrations in 2025 and is the region's second largest electric car market.

The UK automotive sector is ambitious and heavily invested.

This should be cause for celebration, yet instead it is being delivered at huge and unsustainable cost. As manufacturers strive to comply with the mandate, SMMT analysis suggests this has compelled more than £12 billion of discounts on new BEV models to date, alongside other compliance costs. This is on top of the huge capital investment and development costs to design, build and market these innovative new products. More than 160 BEV models are now available in the UK, two-thirds more than in pre-Mandate 2023. Ever more affordable products are coming on sale, with improved range to make them ever more attractive.

SMMT's 2026 UK Automotive Business Leaders Barometer is stark on delivering net zero. No business leader who responded believes the UK is ahead of the targets, and only 7.5% of respondents believe the UK is on track to deliver road transport's contribution to 2050 under current conditions.

Confidence must be restored in the pathway to delivering a sustainable future across the automotive and business community.

Urgent action is needed to reset and reframe the road to decarbonisation.

REVIEWING THE TRANSITION TO ZERO

As set out in March 2026, SMMT's *Same Destination, Smarter Route* report, published in March 2026, a change in direction is needed urgently. This sets out the wider case for why UK Government must carry out a holistic review of the EV regulatory and market ecosystem as a matter of urgency.[5]

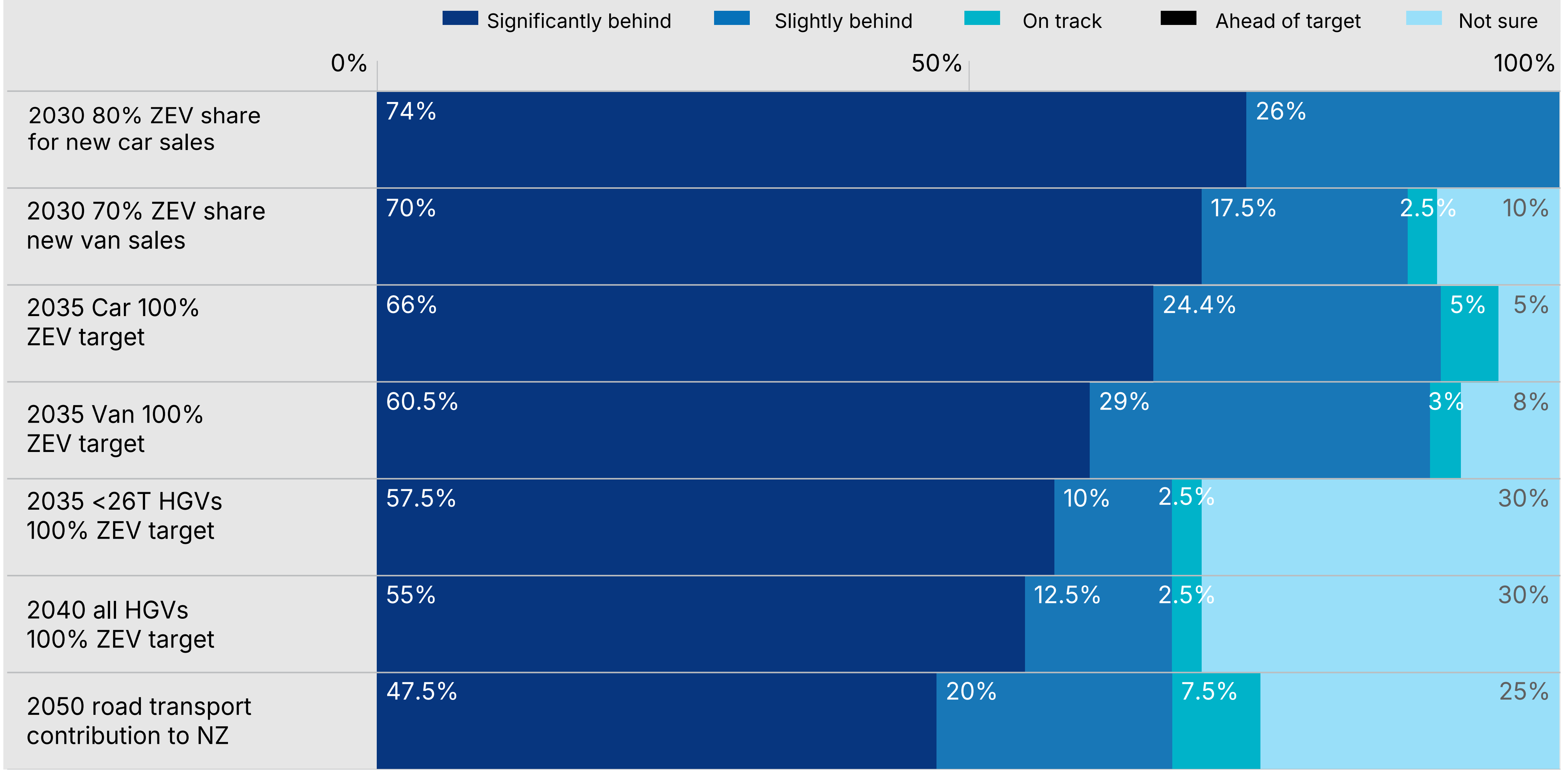
The report sets out how in 2025, battery electric vehicles accounted for 23.4% of new car registrations against a 28% target, while vans reached 9.5% against a 16% target. As a result, many manufacturers have had to rely on heavy incentivisation and regulatory flexibilities to remain compliant, highlighting the growing gap between policy expectations and real-world market demand. Deloitte's 2026 Global Automotive Consumer Study[6] highlights uneven consumer demand across regions. In the UK, when respondents were asked about their preferred powertrain for their next car, just 11% said they would choose a full battery electric vehicle, with a further 11% opting for a plug-in hybrid. Separate findings from an Autotrader consumer survey[7] also suggest there has not yet been the necessary step change in demand, with just 10% of recent non-electric car buyers - new and used - even considering going electric, despite rising fuel prices linked to the Middle East conflict.

5 SMMT Same destination, smarter route, March 2026
6 Deloitte "2026 Global Automotive Consumer Study", January 2026
7 Autotrader "Road to 2030" Report, June 2026

> *"We need the ZEVM trajectory to reflect real consumer demand to ensure a transition which lowers carbon emissions up to 2035 while protecting the competitiveness of UK EV manufacturing."*
>
> *CEO of a vehicle manufacturer*

DO YOU THINK THE UK IS ON TRACK TO MEET THE FOLLOWING ZERO EMISSION VEHICLE (ZEV) AND NET ZERO-RELATED TARGETS?

SOURCE: SMMT UK BUSINESS LEADERS BAROMETER, Q2 2026



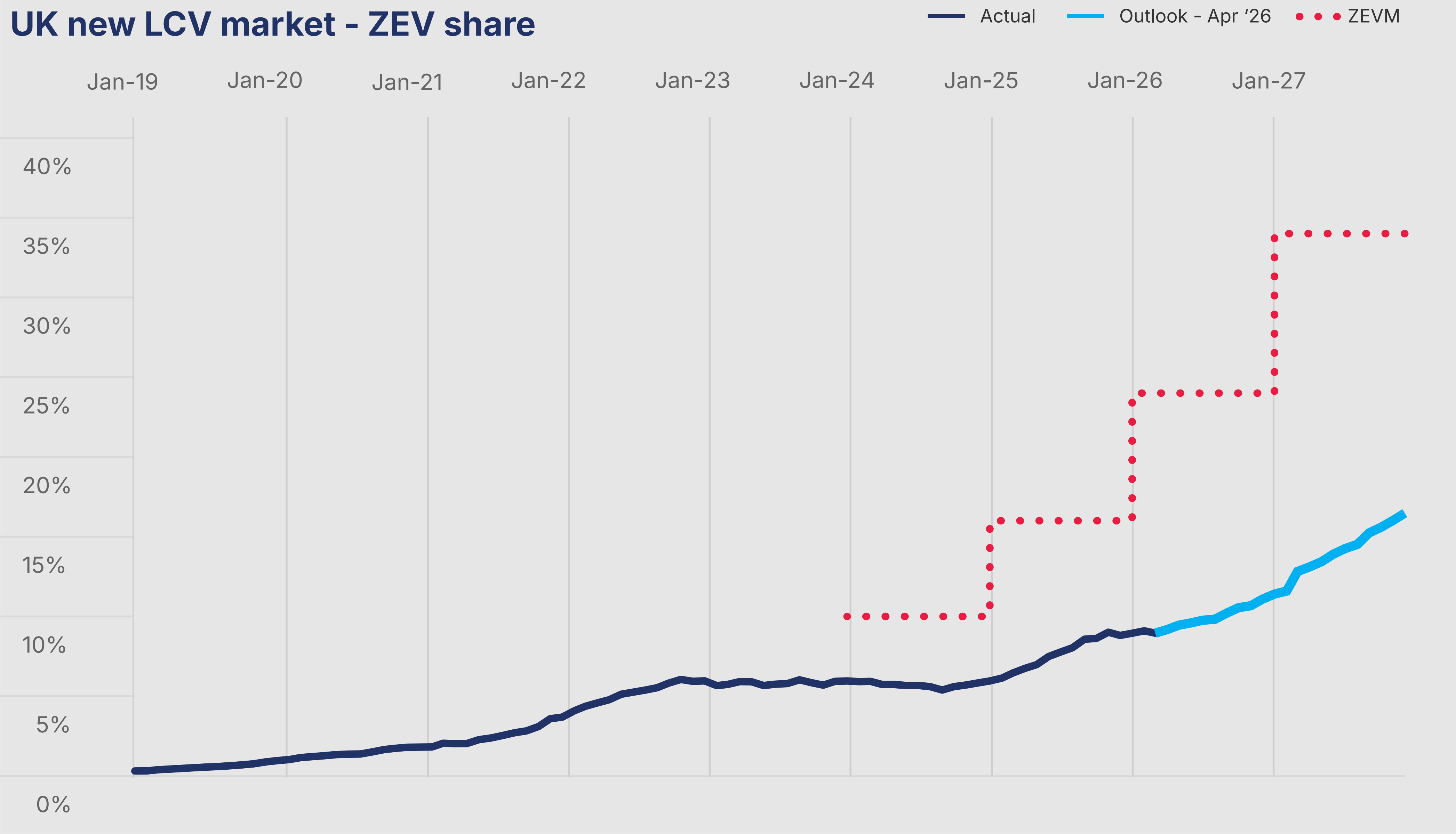
ASSUMPTIONS FUELLING THE UK'S EV TRANSITION PATHWAY NO LONGER STAND AGAINST GEOPOLITICAL AND ECONOMIC REALITY (MARCH 2026)

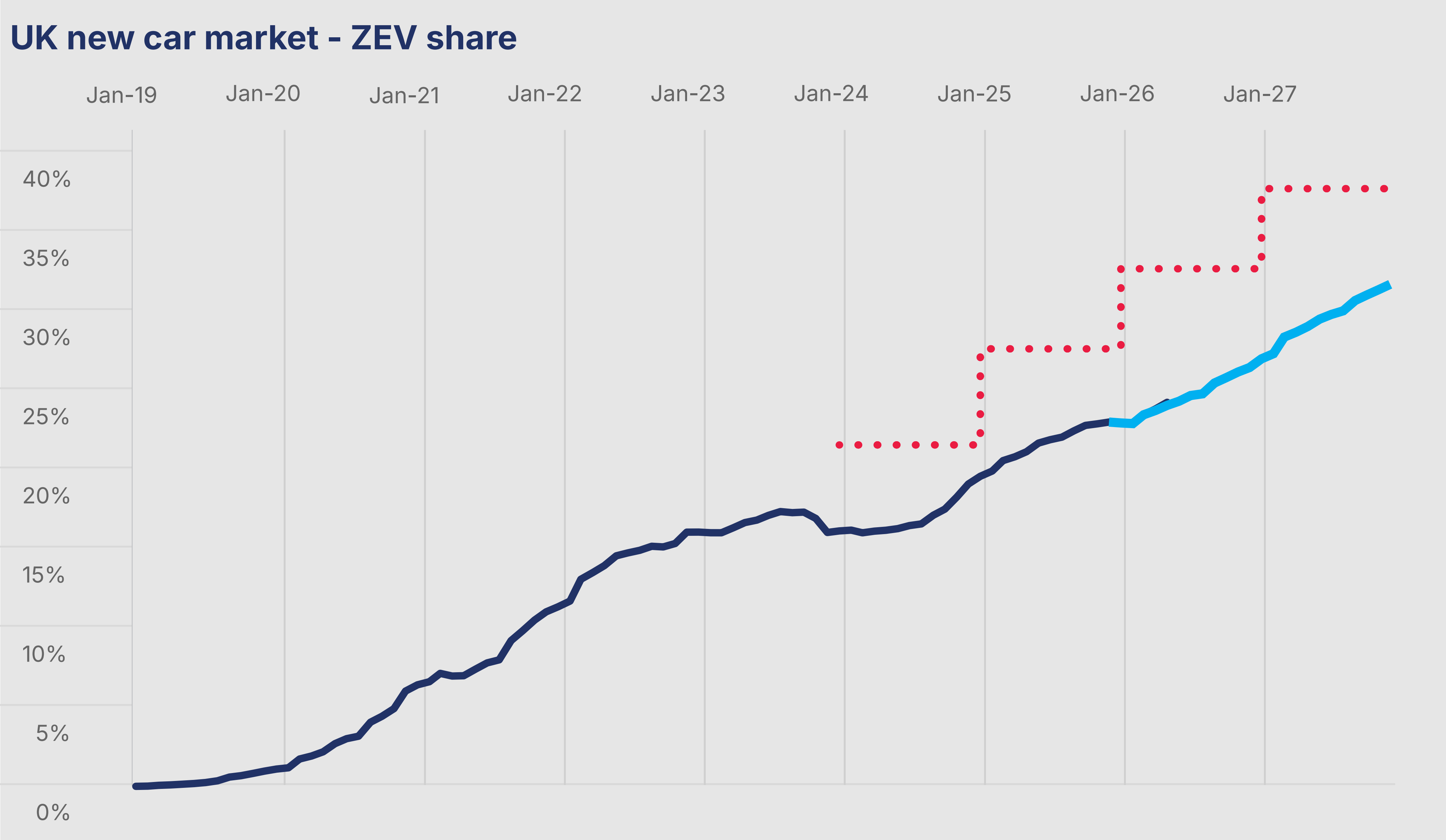
SOURCE: SMMT SAME DESTINATION, SMARTER ROUTE

	Expectation/Status in 2021	Reality in 2025	Difference
New EV car market share	26% by 2025 without regulation	23.4% with regulation	10% lower demand
2026 Battery price	$80/kWh	$105/kWh	31% higher
Price parity	2025	Not achieved	17% higher
European gigafactory capacity	590 GWh	325 GWh	45% lower
Industrial energy price	14.06p/kWh	25.33p/kWh	80% higher
Domestic electricity price	Jan 2021: 17.2p/kWh	Jan 2026: 27.69p/kWh	61% higher
Domestic electricity daily standing charge	Jan 2021: 23.03p/day	Jan 2026: 54.75p/day	138% higher
100% of motorway service areas with ≥6 ultrarapid chargers	End of 2023	Around 70% by early 2025	Target missed
Average public 50kW rapid charge cost	Sept 2021: 36.74p/kWh	Feb 2026: 82.1p/kWh	123% higher
Average public >150kW ultra-rapid charge cost	Sept 2021: 34.21p/kWh	Feb 2026: 83.2p/kWh	143% higher

UK NEW CAR AND VAN MARKET OUTLOOK (APRIL 2026)

SOURCE: SMMT





The consumer demand gap is expected to persist. SMMT's latest outlook in April 2026 suggests both car and van markets will continue to fall short of future mandate targets – with cars expected to be at 32% by 2027 rather than the 38% mandated and LCVs to 3.5 tonnes at 16.5%, half the mandate's 34% target. Meanwhile the assumptions underpinning the original framework have shifted sharply: battery costs are around 30% higher than expected, energy costs around 80% higher, and consumer demand remains below earlier projections. This is why industry is calling for an urgent, holistic review of the EV transition to ensure regulation, market conditions and industrial ambition are aligned.

When the facts and data change, it becomes evident that a holistic review of the whole EV ecosystem and transition is needed. To secure shared ambitions in the long run, that review must look at the trajectory and the outcomes - including necessary regulatory and market remedies - must be clarified by late 2026 with changes in force by early 2027 and backdated to apply from the start of the 2027 compliance year.

The ZEV mandate is only one, albeit fundamental, part of the puzzle.

> "The ramp up in ZEV targets is too steep and the EV sector's losses are unsustainable."
>
> *MD of a vehicle manufacturer*

A FAIR TRANSITION FOR ALL MARKET SEGMENTS

The challenges of delivering zero emission heavy goods vehicles (HGVs), which underpin critical logistics across the country, cannot be understated, being even more significant than those faced by cars and vans. In the HGV sector, the move to zero emission vehicles has barely begun, at a time when the economic business case for fleet operators does not yet exist. ZEVs account for just 1.5% of all new HGV registrations in the UK, dominated by some very specific use cases (e.g. utility vehicles like electric bin lorries) and those HGVs taking part in the very welcome Zero Emission HGV and Infrastructure Demonstrator (ZEHID) trials. For comparison, nearly 80% of all new BEV heavy-duty trucks in the EU were registered in just five member states: Sweden (7.1%), Netherlands (6.3%), Austria (3.2%), Denmark (2.9%) and France (2.1%).[8] More rapid progress in these countries has been driven by strong financial incentives, such as purchase subsidies, alongside significant infrastructure funding.

Therefore, the transition to zero emission HGVs will require 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. Such an approach must also recognise the international – particularly European – interconnectedness of HGV manufacturing and its supply chain, the UK's reliance on imported vehicles, and the trans-continental nature of many freight operations. The prevailing view is that the UK should continue to follow EU-derived CO_2 regulation and provide maximum technology freedom to achieve targets.

8 ACEA Decarbonising heavy duty road transport, October 2025

CRITICAL ENABLERS STILL NEEDED TO HELP CONSUMERS MAKE THE SWITCH

There must be no let up in all the enablers for a successful transition – taxation, incentives, infrastructure.

The introduction of eVED, a new per mile tax on electrified vehicles, is the wrong measure at the wrong time, and belies a joined up approach by government departments that the Industrial Strategy is designed to shepherd.

For example, government's own analysis from the OBR suggests this measure will take 440,000 cars out of the market at this critical moment (although OBR expect manufacturer action and other government measures to soften this to a net 120,000 shortfall), slowing economic activity and fleet renewal, and undermining the positive impact of other supportive measures. There needs to be a fair deal for motorists on taxation that minimises disruption to the market. While long term changes are inevitable with falling fuel duty, the cost delta between technologies needs to continue to favour new technologies, be simple to understand, and follow an all-stakeholder approach to ensure a smooth and fair system that delivers for consumers and businesses.

On the positive side, the reinstatement of a purchase incentive for electric vehicles, and the £1.95 billion allocated under the Electric Car Grant (ECG), is an important signal to consumers that now is the time to switch. Rapid deployment and availability of this grant over the next few years could help provide some of the momentum needed to drive up EV market share, and support the switch to affordable zero emission mobility. This must be part of a suite of polices along with ZEV mandate reforms to achieve sustainable, long term ambitions and manage the turbulence in the marketplace in uncertain times.

The extension of commercial vehicle grants was also an essential step forward where decarbonisation is proving extremely difficult. These should be further extended, and where possible, expanded to support manufacturers delivering this transition.

SMMT welcomed new funding for charging infrastructure last year, but continues to seek conditionality in infrastructure rollout in line with ZEV mandate levels, to support uptake in the market and grow consumer and business confidence. Further steps can bring a more socio-economic balance to the transition – for example, equalising VAT costs on public charging from 20% to 5% in line with home charging to support a fair transition.

Specific infrastructure is required for both heavy duty and commercial use, requiring additional focus on depot charging and requirements for hydrogen technologies, recognising the use cases these vehicles serve and in support of fleet operators.

CONNECTED FUTURES CLOSER THAN YOU MIGHT THINK

The UK is also well geared to take advantage of the next generation of connected and automated mobility (CAM). Government's decision to bring forward key legislation has positioned Britain as a leading European market for automated vehicles and a frontrunner in Physical AI investment, development and deployment. Automated passenger services represent a market expected to be worth some £3.7 billion annually in Britain by 2040 while having the potential to widen society's access to mobility and improve road safety. This competitive advantage should be cultivated and where possible accelerated in the coming months and years to keep the UK at the frontier of innovation and on the road to global leadership in CAM policymaking, investment and deployment.

CONCLUSION

Delivering a thriving automotive market while driving accelerated technological change is incredibly challenging, as the industry tries to overcome industrial and geopolitical barriers, and help consumers to sustainably and affordably make the switch to zero emission mobility. It cannot be delivered at the expense of the UK's own long-term capability and economic activity, by the loss of good jobs across the UK, or by off-shoring both strategic manufacturing and carbon responsibility.

A rebalanced pathway that reflects market and international realities, addresses the interconnected policy challenges outlined in this report, and is supported by a faster rollout of key enablers will help stabilise and attract new investment, while protecting UK advanced manufacturing jobs and supply chains. This will build stronger foundations for the long-term health of the sector and, with it, improve the prospects of achieving the end goal of net zero by 2050.

Together, we can deliver decarbonisation without deindustrialisation.

UK AUTOMOTIVE AT A GLANCE

Turned over
£85bn

Exported products worth **£39 billion,** accounting for **10%** of the UK's total export goods

830,000
People employed across wider UK Auto

23 R&D centres

47,344
Commercial vehicles built in 2025

Private sector investment
£4.4 billion

42,549,649
Vehicles on UK roads in 2025

555,826
Cars (not vehicles) exported in 2025

9 Design centres

7
Commercial vehicle manufacturers

£5bn
Invested in R&D

4 Mainstream
car manufacturers

Cars built in 2025
717,371

10
Engine manufacturers

7 Bus and coach manufacturers

Added
£18bn
in value to the UK economy

7 Major premium and **sports car** manufacturers

60+ Specialist car manufacturers

2,500+
Suppliers

1,608,100
Engines built in the UK 2025

2,020,520
Cars registered 2025

315,422
LCVs registered 2025

SMMT
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MOTOR INDUSTRY

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