

UKSIF

UK Sustainable Investment
and Finance Association

Transport

Financing the Future

Policy research
2024





Executive Summary

Transport is the sector with the highest carbon emissions in the UK. In 2021 the Department for Transport (DfT) recorded that the sector produced 26% of the UK's total emissions¹, with heavy goods vehicles (HGVs) accounting for nearly 20% of UK transportation emissions².

Not only is it the highest emitting sector, a recent survey by UKSIF of 100 large listed and private UK transport companies also found that the UK transport sector is falling behind other sectors of the UK economy when it comes to reaching its net zero targets. On average, out of 400 large companies surveyed (operating in energy, housing, transport and financial services) 45% expect to achieve their intermediary net zero targets by 2030, compared to just 32% of transport companies in the UK. Recognising the scale of this challenge, in July 2021 the Government published the Transport Decarbonisation Plan³. This set out a number of ambitious targets, including a commitment to consult on a zero emission vehicle (ZEV) mandate (introduced in 2023), alongside a consultation on a phase-out date of 2035 or earlier for the sale of new non-zero emission powered two and three-wheeled vehicles.

To meet these goals, the Government has made funding available to help drive decarbonisation in the transport sector, including a commitment of nearly £400 million to accelerate electric vehicle (EV) charging infrastructure⁴, and £200 million to be shared between transport decarbonisation demonstrators⁵. Whilst this is welcome, the UK Sustainable Investment and Finance Association (UKSIF) is of the firm opinion that much more must be done to attract private capital to help decarbonise this crucial sector of the economy.

It is therefore a concern that a growing number of factors threaten the delivery of the Transport Decarbonisation Plan. Most consequential has been the success of the US Inflation Reduction Act⁶ (IRA), introduced by the Biden administration in August 2022. The Act aims to incentivise domestic private sector investment in all sectors of the economy, including sustainable transport. As a direct result of the incentives available under the IRA, there has been huge growth in gigafactory investment across the US – investment that might otherwise have been directed towards the UK. Facing this global competition for capital, it is critical that Government urgently delivers a strategy that drives investment into the gigafactories that will underpin the long-term future of the UK's automotive sector. Over nine in ten (92%) large UK transport firms have also said they would welcome a transparent, consistent approach to gigafactory investment in the UK. Additionally, nearly all (98%) of the 100 businesses surveyed (representing an estimated £900 billion in turnover) have said they are willing to increase their investment in sustainable projects in the UK if favourable policies are implemented.

The Government's recent decision to push back the Internal Combustion Engine (ICE) vehicles phase-out date from 2030 to 2035 has also risked an investment hiatus. The decision was motivated, at least in part, by the perception of electoral capital to be won from responding to an increasingly vocal anti-net zero narrative. Alongside this, in relation to the ZEV mandate, the Government's own research⁷ demonstrates the sooner the ZEV mandate is implemented, the better the outcome for consumers, the taxpayer and the environment. Not only does accelerating the transition to EVs maximise the benefits in terms of emission reductions, it would bring forward and amplify associated benefits to the UK economy – such as capturing market share in the growing EV sector, associated positive supply chain impacts and job creation. On the contrary, delay and uncertainty regarding policy implementation damages investor confidence, with potential loss to the economy as private investment is either put on hold or redirected overseas.

It is clear that without greater access to private capital, achieving the appropriate infrastructure roll-out at scale and pace will be difficult. PwC has estimated that to deliver the critical infrastructure needed for EVs, the UK needs to be investing at least £1.5 billion per annum⁸. To meet this challenge, even without widespread reliance on subsidies, there are a variety of regulatory and policy changes that can be made to open new opportunities and de-risk investments that will draw in more private capital. Nearly three in four (74%) transport companies also believe that introducing an EV Infrastructure Bill would have a positive impact on companies' investment in sustainable transport in the UK.

UKSIF represents over 300 financial services firms with a combined total of more than £19 trillion of global assets under management. We have been working hard with our members to consider the policy direction required from the UK Government to best unlock the private capital needed to deliver both decarbonisation and economic growth in the transport sector. We have identified three immediate priorities.

First, the UK needs firm EV targets that provide manufacturers, investors and consumers with clarity on what to expect from the transition. Second, the public-private approach to gigafactory investment needs to be reformed to create the investment environment for the UK to become globally competitive in the battery sector. Finally, much more must be done to prioritise freight decarbonisation and provide direction of where, and to what extent, to invest.

¹ <https://www.gov.uk/government/statistics/transport-and-environment-statistics-2022/transport-and-environment-statistics-2022>

² <https://www.statista.com/statistics/486069/co2-emission-from-freight-transport-by-road-including-removal-services-uk/>

³ <https://www.gov.uk/government/publications/transport-decarbonisation-plan>

⁴ <https://www.gov.uk/government/news/transport-decarbonisation-package-to-help-boost-net-zero-ambitions>

⁵ <https://www.gov.uk/government/news/government-invests-200-million-to-drive-innovation-and-get-more-zero-emission-trucks-on-our-roads>

⁶ <https://www.whitehouse.gov/cleanenergy/inflation-reduction-act-guidebook/>

⁷ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1154612/zev-mandate-cost-benefit-analysis.pdf

⁸ <https://www.pwc.co.uk/assets/document/Unlocking-capital-for-net-zero-PwC-Nov-2020.pdf>

Our Recommendations

1

Reinstate the initial 2030 internal combustion engine phase-out date to ensure the UK maintains its ambitious targets on EVs and transport decarbonisation.

2

Reform the public private approach to gigafactories to enable further investment into battery production in the UK.

3

Deliver a UK freight decarbonisation strategy and investment plan to provide industry with greater certainty.



Policy 1:

Reinstate the initial 2030 internal combustion engine phase-out date to ensure the UK maintains its ambitious targets on EVs and transport decarbonisation

The problem:

Decarbonising the transport sector requires ambitious targets to ensure a rapid increase in the number of EVs as well as the associated charging infrastructure.

The UK had originally set the goal of phasing out all new internal combustion engine cars and vans by 2030. The investment required to meet this target would put UK industry at the forefront of an inevitable global transition, allowing the UK to lead both in terms of carbon reduction targets and economic opportunities arising from it.

However, in an unexpected move in September 2023, the Government pushed the deadline for phase-out back to 2035 which has badly damaged investor confidence and trust. Manufacturers had been investing ahead of time to meet the original targets, and the shifting of the goalposts has made it much harder for them to plan. Upon the announcement of the delay, the Society of Motor Manufacturers and Traders (SMMT) stated that to make the UK a leader in zero emission mobility the Government need to send a “clear, consistent message...confusion and uncertainty will only hold [consumers and manufacturers] back”. The RAC also confirmed that the shift was “disappointing”, adding “what message does taking [the Prime Minister’s] foot off the gas in this way send to an auto industry that was confident of its ability to hit the 2030 deadline on the basis of a clear and consistent regulatory regime?”. Ford UK has described the original 2030 deadline as a “vital catalyst to accelerate Ford into a cleaner future”, emphasising that the automotive industry needs “ambition, commitment and consistency”⁹.

Without certainty from policymakers about targets to phase-out new internal combustion engines on UK roads, manufacturers find themselves in limbo, questioning whether early investment is too risky or if policies will shift again. Given the international nature of the automotive industry, and the competition between governments to attract investment, this only serves to make the UK a less attractive destination in relative terms. This is confirmed by large transport businesses in the UK, where over half (57%) have said they have moved or plan on moving investments out of the UK to a market that is more supportive of their sustainability goals.

In addition, this confusion and uncertainty means that potential investors in the critical charging infrastructure that is required to underpin EV rollout may make the rational decision to delay or redirect their investment. This risks creating a vicious circle, when it is in fact vital that both infrastructure and supply chains run ahead of regulatory implementation. The UK’s transport sector must be seen as an attractive place for investors, and the pushing back of the phase-out date, along with the political uncertainty of whether it will be pushed back further, are having a detrimental impact. Over half (60%) of UK transport businesses are optimistic that reinstating the initial 2030 phase-out date for sales of new petrol and diesel cars and aligning with the ZEV mandate would have a positive impact on companies investing in sustainable transportation. Providing this policy certainty is especially important at a time when the global market for EVs seems to be slowing down.¹¹

The ZEV mandate must also align with the reinstatement of the phase-out date, and a further weakening on the mandate risks the flow of investments into the UK EV market, damaging the supply of EVs and limiting choice for consumers.

⁹ <https://www.driving.org/industry-reacts-to-2030-new-car-and-van-fossil-fuel-ban-delay/#:~:text=The%20industry%20reacted%20with%20anger,and%20vans%20by%20five%20years>

¹⁰ <https://www.reuters.com/business/autos-transportation/ford-uk-slams-potential-relaxation-plans-ban-new-petrol-diesel-car-sales-by-2030-2023-09-20/>

¹¹ <https://www.ft.com/content/ae42f287-e325-423b-9e69-03416a3826ba>

What are the solutions?

A Reinstate the initial 2030 phase-out date for sales of new petrol and diesel cars and align with the ZEV mandate

In order to reach the UK's net zero goals and support industry with their investment, the Government should reinstate the original 2030 phase-out date, and bring the current ZEV mandate targets forward to ensure both the mandate and phase-out date are aligned. Well-defined targets and deadlines enable industry to strategise and invest effectively, and whilst the road to transition will be difficult, clarity and ambition from Government is critical to maintain the pace of both investment and innovation. Firms have already invested large sums into decarbonising their vehicles, and there is a fear that the change to a 2035 deadline means the Government is pulling back on their EV ambitions.

In January 2024, the Government published their ZEV mandate legislation that will require all UK car manufacturers to meet sequential targets for new electric car sales over coming years. This will be enforced incrementally over the next 11 years, starting with a requirement for 22% of new cars sold to be pure electric in 2024. This further increases to 28% in 2025, 52% in 2028 and 80% in 2030. By 2035, 100% of new vehicles sold must be emission-free. Whilst UKSIF welcomes the introduction of this mandate, which will likely mean the transition to EVs will ramp up in 2024, should the 2030 phase-out date be reinstated, the ZEV mandate should follow in its ambition, to ensure both targets are aligned as soon as possible.

B Provide nationwide support for individuals and businesses to transition to EVs

A phase-out of the sale of new petrol and diesel cars must be matched with consumer and business incentives to help the public make the switch to EVs. London's Ultra Low Emission Zone (ULEZ) scrappage scheme provides individuals with a grant of £2,000 for non-compliant cars and £7,000 for vans, to be scrapped or retrofitted. Small businesses and sole traders will be able to receive up to £21,000 to scrap three vans or minibuses, in addition to retrofit grants raised from £5,000 to £6,000.¹² This builds on London's previous scrappage scheme, which ran from October to November 2021, for Londoners receiving certain means-tested disability benefits. The scheme gained high levels of interest, with a total of 23,715 applications made¹³, resulting in 15,000 polluting vehicles removed from the city's roads.¹⁴ Various scrappage schemes have been introduced across the UK in recent years, including in Birmingham and Scotland,¹⁵ but this has created a postcode lottery for individuals and businesses. Central government should therefore introduce a consistent, nationwide scrappage scheme to support individuals, particularly those on low incomes, and businesses, particularly small- and medium-sized firms, to transition to EVs. Based on population figures, expanding the £160 million London scheme on the same terms nationwide would cost an estimated £1.194 billion.

A scrappage scheme could be complemented by zero-interest loans to ease the up-front cost of transitioning to EVs, as is happening in France. In 2023, the French government allocated €1.3 billion (£1.12 billion) towards the consumer transition, including seven-year interest free loans worth up to €30,000 to purchase electric cars or vans. Other measures in the package include grants worth up to €6,000 for particular EVs, and the subsidised leasing of 100,000 EVs to low-income households.¹⁶ Based on population figures, replicating this entire programme in the UK would cost an estimated £1.104 billion. Either approach – a scrappage scheme alone, or one complemented by additional measures – would require upfront government funding. In the medium to long-term, however, this would result in significant fiscal benefits, including in reduced NHS spending for those suffering from breathing difficulties and health concerns relating to poor air quality. In London alone, over 4,000 premature deaths are attributed to poor air quality yearly, and the associated healthcare treatment costs the NHS £1.4 – £3.7 billion a year.¹⁷

Case Study: Norwegian Charging Infrastructure policy

The Norwegian Parliament established charging right legislation for people living in apartment buildings, with policymakers understanding how essential it is to have the option to fast charge when needed.

Norway has also successfully delivered fast charging stations every 50km on all main roads in Norway, and by the end of 2022, the country had capacity for more than 5,600 cars to fast-charge at the same time. Alongside this, the development of the Electric Car Association charging chip means one can charge at almost any charging station throughout the country.

This infrastructure support has ensured that by 2022, around 88% of all cars sold in Norway were EVs, which included battery-electric vehicles (BEV) and plug-in hybrid EVs (PHEV). This share alone represents a large increase compared to the pre-pandemic EV sales share, which stood at 56% in 2019.

¹² <https://www.london.gov.uk/media-centre/mayors-press-release/MAYOR-ANNOUNCES-SCRAPPAGE-EXPANSION>

¹³ <https://tfl.gov.uk/modes/driving/ultra-low-emission-zone/scrappage-schemes?cid=scrappage-scheme#:-:text=The%20Mayor%20of%20London%20has,boroughs%20on%2029%20August%202023>

¹⁴ <https://www.inchcape.co.uk/blog/ulez-scrappage-scheme-expansion-aug-23/#:-:text=In%20the%20previous%20scrappage%20scheme,grant%20if%20you%20are%20eligible>

¹⁵ <https://www.autotrader.co.uk/content/news/car-scrappage-scheme-uk?refresh=true>

¹⁶ <https://www.connexionfrance.com/practical/thinking-of-buying-an-electric-car-in-france-now-may-be-a-good-time/194856>

¹⁷ <https://www.londoncouncils.gov.uk/node/33227#:-:text=Air%20pollution%20has%20a%20negative,year%20to%20the%20health%20service>

C Introduce and mandate targets for EV charging points

A reinstatement of the initial phase-out date for the sale of new petrol and diesel cars means infrastructure must match the increased usage of EVs. To ensure the UK has adequate charging infrastructure, the Government should mandate targets for EV charging points in an Electric Vehicle Infrastructure Bill, to ensure that charging infrastructure is appropriately scaled, well-distributed and widely compatible.

The latest Government estimates suggest that the UK now has more than 50,000 EV public charging points.¹⁸ DfT has a target for 100,000 public EV charging points by 2025, and in excess of 300,000 across the UK by 2030.¹⁹ This leaves six years to ensure a further 250,000 devices are added to the network. In order to meet this goal, an average of 2,273 new devices will need to be installed every month. The current monthly installations need to grow by 60% on average between October 2023 and August 2025 in order to meet expected demand and to deliver the required number of chargepoints needed.²⁰

There are a number of barriers to private landowners installing EV charging infrastructure, ranging from cost of the installation, confusion and lack of knowledge over available grants, unwillingness to install the infrastructure, and resistance from some local councils that can sometimes hold up or block completely new off-street charging points. As it stands, both residential and non-residential landowners have been slow in installing chargepoints, particularly landlords, car parking owners and supermarkets. An Electric Vehicle Infrastructure Bill would mandate these infrastructure targets to ensure they are met by private landowners. It should legislate the Government's current proposals that from 2025, every new non-residential building with more than 10 car parking spaces is to have one charge point and cable route for every five spaces²¹. This should also apply to supermarkets, car parks and motorway service stations. Currently, less than a quarter of service stations are adequately equipped with the target number of chargers.²² Mandating targets will provide charging infrastructure manufacturers with more clarity and a more defined target for investment.

Alongside this, the Bill should ensure infrastructure is inclusive and widespread across the nation. It should also mandate for industry standards to ensure more compatible charging²³ and require local councils and authorities to establish EV charging infrastructure plans, including clearer targets and national guidelines for councils.

18 <https://www.gov.uk/government/collections/electric-vehicle-charging-infrastructure-statistics#full-publication-update-history>

19 <https://assets.publishing.service.gov.uk/media/6245ba40e90e075f15381cf0/taking-charge-the-electric-vehicle-infrastructure-strategy.pdf>

20 <https://www.thisismoney.co.uk/money/electriccars/article-12618377/UK-milestone-50000th-EV-charging-point-installation.html>

21 <https://www.thepilotgroup.co.uk/boost-your-car-park-advertising-potential/#:~:text=New%20requirements%20for%20EV%20charging,route%20for%20every%20five%20space>

22 <https://www.fleetnews.co.uk/news/planning-changes-remove-biggest-barriers-to-motorway-charge-point-rollout#:~:text=RAC%20analysis%20of%20charging%20facilities,having%20that%20amount%20in%20May>

23 [https://www.williamjoseph.co.uk/blog/the-quest-for-universal-charger-compatibility#:~:text=CSS%20\(combined%20charging%20system\),AC%20and%20DC%20rapid%20charging](https://www.williamjoseph.co.uk/blog/the-quest-for-universal-charger-compatibility#:~:text=CSS%20(combined%20charging%20system),AC%20and%20DC%20rapid%20charging)

Method for delivery

- Government should amend the Draft Vehicle Emissions Trading Schemes Order 2023, to alter the ZEV mandate to align it with a new reinstated 2030 phase out date for ICE vehicles.
- The Draft Vehicle Trading Schemes Order 2023 could also be amended to make allowances for a national scrappage scheme, the detail of which would follow as either secondary legislation, or Department for Transport statutory guidance.
- Government should publish an EV Infrastructure Bill, so infrastructure is scaled appropriately, well-distributed and widely compatible.

Cost

- The introduction of an EV Infrastructure Bill and the reinstatement of the initial 2030 phase-out date will mean the Government may see an increase in costs to deliver the needed infrastructure. National Grid ESO has confirmed that it will cost £54 billion to upgrade the country's electricity network.²⁴ However, this cost could be met by private capital – similar to UKSIF's findings that investors would be keen to invest private capital into UK electricity grid upgrades in our [energy report](#). As industry certainty improves, so will private investment in infrastructure, reducing the overall Government expense.
- Based on existing models in London and France, nationwide support for individuals and businesses to transition to EVs, including a scrappage scheme, could cost around £1.1 billion per year. The associated savings in healthcare spending in the medium to long-term would be much greater.

24 <https://www.power-technology.com/news/national-grid-upgrade-network>

Outcomes

- Over half (60%) of large UK transport firms would welcome the reinstatement of the 2030 phase-out date for sales of new petrol and diesel cars.
- Nearly all (93%) of large UK transport firms believe that a greater rollout and standardisation of EV infrastructure, including charge points, would support the consumer shift to EVs.
- Securing a greater share of the UK domestic market for EVs could increase GDP by 0.6% in 2030 and create a further 63,000 jobs in the same year, compared to a 2035 phase out.²⁵
- The London scrappage scheme has seen the removal of more than 15,000 polluting vehicles from London's roads. A national scrappage scheme would likely remove hundreds of thousands of polluting vehicles from UK roads.²⁶

25 <https://www.greenpeace.org.uk/resources/the-impact-of-a-2030-ice-phase-out-in-the-uk/#:~:text=Between%202020%20and%202040%2C%20the,across%20the%20economy%20in%202030>

26 <https://tfl.gov.uk/modes/driving/ultra-low-emission-zone/scrappage-schemes?cid=scrappage-scheme#:~:text=Following%20the%20success%20of%20our,with%20a%20registered%20address%20in>

Policy 2:

Reform the public-private approach to gigafactories to enable further investment into battery production in the UK

The problem:

The UK Government has moved far too slowly on promoting and incentivising the growth of a domestic battery manufacturing industry, despite a stated ambition for the UK to be a world leader in the battery value chain.

In fact, the House of Commons Business and Trade Committee has cautioned that the Government has failed to grasp the extent of current policy gaps in relation to gigafactories and continues to emphasise the need for a long-term vision and clear action plan to improve battery manufacturing capacity²⁷.

USKIF recognise both the Government's and the Opposition's commitment to bolstering gigafactory investment, in particular the Department for Business and Trade's securing of a £4 billion investment from Tata, which included £500 million in subsidies from the Government²⁸, and Labour's commitment to help finance eight new battery plants with £2 billion worth of investment²⁹. UKSIF also welcomed the recent UK Battery Strategy; however, in our view it does not go far enough to secure the vital infrastructure needed to make the UK a world leader. Research from the Faraday Institute has found that the UK will require 10 gigafactories producing 200GWh of battery capacity per annum for all sectors³⁰ in order to compete on the global stage. However, current forecasts predict that the UK will only be host to eight gigafactories by 2040, each with an average production capacity of 15GWh per year³¹. This not only fails to meet forecast requirements, it also compares poorly to the UK's peer nations. Germany is a leading location for battery manufacturers, with 12 gigafactories open or planned in the next 6 years. Germany will account for 34% of Europe's capacity in 2030, with Hungary following behind with 10.5%, France with 8.8% and Italy with 8.7%³².

Alongside this, the US Inflation Reduction Act (IRA) is leading to a surge of investment flowing to US gigafactories to the detriment of the UK. The Act's tax credits have led to the announcement of 14 new gigafactories since July 2022. More widely, the IRA has created over £86 billion of capital investments in clean energy

manufacturing projects, including over £55 billion towards EVs, as well as battery supply chains³³. Alongside this, the Benchmark Gigafactory Assessment has stated that the North American capacity for cheaper lithium iron phosphate cell production will grow significantly across the later part of the decade, with 155.9 GWh of pipeline capacity to 2030³⁴. The UK needs to respond to this global competition with an internationally competitive reform package to attract private investment. It is fundamental to the growth of the industry and the UK economy that there is a transparent process for gigafactory investment that responds to the radical measures the US and various other countries have implemented.

Securing gigafactories in the UK can provide a platform for a just transition, decarbonising transport and anchoring the green industries of the future, including renewable energy, through support in producing renewable energy systems such as solar panels, wind turbines, and energy storage. Reforming the public-private approach to gigafactories will lead to a drastic increase in job creation, alongside a boost in UK investment of between £5 billion and £18 billion³⁵. It has been estimated that 100,000 jobs in battery manufacturing and the wider battery supply chain could be created through 10 gigafactories³⁶.

Case Study: Inflation Reduction Act

In 2022, President Biden signed the Inflation Reduction Act (IRA) into law. The Act is a transformative law and is the largest investment in clean energy and climate action ever. Following the passing of the IRA, the private sector has confirmed more than \$110 billion in new clean energy manufacturing investments. This includes more than \$70 billion in EV supply chains. The investments in clean energy and climate since the IRA was signed have created more than 170,000 jobs, and an additional 1.5 million jobs are projected to be created in the next decade.

<https://www.whitehouse.gov/briefing-room/statements-releases/2023/08/16/fact-sheet-one-year-in-president-bidens-inflation-reduction-act-is-driving-historic-climate-action-and-investing-in-america-to-create-good-paying-jobs-and-reduce-costs/>

²⁷ Committee Chair says Government's gigafactory support 'fails key tests' as Government response to EV batteries report published - Committees - UK Parliament

²⁸ <https://www.gov.uk/cma-cases/referral-of-the-proposed-subsidy-to-tata-steel-uk-by-the-department-for-business-and-trade>

²⁹ <https://www.bloomberg.com/news/articles/2023-03-09/uk-labour-party-pledges-2-billion-for-eight-battery-plants>

³⁰ <https://www.faraday.ac.uk/ev-economics-study-2022/>

³¹ <https://www.statista.com/statistics/1129421/gigafactory-demand-in-the-united-kingdom/#:~:text=By%202040%2C%20the%20UK%20is,of%2015%20GWh%20per%20year>

³² https://www.faraday.ac.uk/wp-content/uploads/2022/06/2040-Gigafactory-Report_2022_Final_spreads.pdf

³³ <https://source.benchmarkminerals.com/article/one-year-on-the-ira-has-changed-the-battery-landscape-in-the-us>

³⁴ <https://www.benchmarkminerals.com/market-assessments/gigafactory-assessment/>

³⁵ <https://committees.parliament.uk/writtenevidence/118546/pdf>

³⁶ https://www.faraday.ac.uk/wp-content/uploads/2022/07/Faraday_Insights_2_update_July_2022_FINAL.pdf

What are the solutions?

A Provide a consistent approach to UK Government partnerships with investors, including producing investment prospectuses for sites

The IRA provides potential investors with easily identifiable rules of engagement. The US investment landscape is designed to be transparent, which includes information regarding tax credits, incentives related to the creation of high-paid jobs and planning laws. The EU is following suit with this, along with other jurisdictions. The UK will continue to fall behind and be unable to compete on the global stage for battery production should it fail to provide a clear process for investors. The lack of transparency in the regime is highlighted through the 2023 subsidy for Tata Group to build a gigafactory in the UK; whilst UKSIF supports the announcement, it is not clear exactly how this agreement was completed and whether the Government would seek to repeat the deal for other investors and businesses. UKSIF believes the Government should produce an investment prospectus for identified sites, which sets out the key opportunities, and the level of support investors can expect the Government to provide. This support could come in the shape of subsidies, and providing longer-term certainty for investors that they can access energy at a comparable cost to other international markets. Whilst the UK cannot compete with the US's subsidy offer, policymakers should look to European examples and current ambitious targets; for example, Germany granted NorthVolt €700 million in subsidies³⁷. Similar subsidies in the UK have the potential to generate more than 4,000 jobs³⁸ per gigafactory alone, with thousands more being indirectly created through the supply chain.

B Target locations with existing skilled workforces in the energy industry and automotive industry, alongside securing pre-application planning approvals

The Government should place more of a focus on target locations where skilled workforces are already in existence or can be repurposed. Whilst the UK Battery Strategy refers to identifying and facilitating the skills needed for the battery sector, it makes little reference to targeting locations where those skills are already thriving. These target locations should include Scotland, specifically Aberdeen, and the West Midlands, including Coventry, as well as the North East. The Government should aim to work with local partners in the region to grant priority areas special economic status to attract gigafactory investment, potentially including an enhanced planning offer to allow for greater certainty over project viability and timescales. This could include allowing investors to automatically be granted planning permission in principle for projects that meet certain criteria such as location, expected job creation statistics and use class. Another option could be based on the existing Investment Zone planning offer, which includes various ways to ease planning burdens in areas targeting investment. Existing planning services in Investment Zones include the use of Planning Performance Agreements, the implementation of masterplans, consideration of Investment Zone sites in local planning policy, and the use of Local Development Orders where these are expected to support future investment. On top of this, there needs to be a specific programme to support green jobs training, including

reskilling from existing industries, beyond the North Sea transition deal. The Institute of the Motoring Industry's 2022 figures revealed that only 11% of technicians in the UK are qualified to work safely on EVs³⁹ and it is predicted that there will be a shortfall of 25,100 EV-trained TechSafe technicians⁴⁰. It is estimated that by 2027, there will not be enough qualified mechanics to maintain the level of EVs in the UK⁴¹. No primary or secondary legislation would be required to introduce reskilling methods to specific areas throughout the UK, and instead could be tied to the Government's further education reforms, and the Lifelong Learning Entitlement, which seeks to transform the adult education system and help them reskill and retrain.

Method for delivery

- Government should establish a consistent investment approach through a policy statement from the Department for Business and Trade and the Department for Transport.
- Government should publish a Statement and Strategy on how it seeks to improve pre-application planning approvals, and which locations within the UK it will prioritise.

Cost

- The largest cost for the Government will be the subsidies for gigafactory investment, which both major political parties recognise. The Government committed £500 million to secure a £4.5 billion investment for a Tata Group gigafactory in 2023, while the Labour Party has pledged £2 billion to help finance eight battery plants.
- The creation of a coherent and consistent framework to guide investment in gigafactories would not require and new capital investment.
- Reskilling workforces and ensuring pre-application planning approval for sites will require government funding into skills resourcing. However, the majority of this funding is already in place via the Lifetime Learning Entitlement.

Outcomes

- 87% of transport companies believe that providing a consistent approach to UK Government partnerships with investors, including producing investment prospectuses for gigafactory sites would have a positive impact on companies investing in sustainable transport in the UK.
- 92% of large UK transport companies would welcome a transparent, consistent approach to gigafactory investment in the UK.
- According to the Faraday Battery Challenge, a reform of the approach to gigafactories could boost UK investment from between £5 billion and £18 billion.⁴²
- The Faraday Institute has estimated that 100,000 jobs in battery manufacturing and the wider battery supply chain could be created through 10 gigafactories.⁴³

⁴² <https://committees.parliament.uk/writtenevidence/118546/pdf>

⁴³ https://www.faraday.ac.uk/wp-content/uploads/2022/07/Faraday_Insights_2_update_July_2022_FINAL.pdf

³⁷ <https://www.rechargenews.com/energy-transition/germany-grants-northvolt-750m-subsidy-for-battery-plant-despite-budget-freeze/2-1-1565149>

³⁸ <https://elmelin.com/5-potential-benefits-of-the-planned-uk-battery-gigafactory/#:~:text=The%20establishment%20of%20the%20gigafactory,a%20cornerstone%20of%20employment%20opportunities.>

³⁹ <https://www.fleetnews.co.uk/news/latest-fleet-news/electric-fleet-news/2022/05/10/automotive-industry-ramps-up-ev-qualified-technicians>

⁴⁰ <https://greenfleet.net/news/27072023/government-urged-address-electric-vehicle-skills-gap>

⁴¹ <https://independentgarageassociation.co.uk/trade-topics/upskilling-technicians-to-service-and-repair-evs/#:~:text=The%20industry%20is%20set%20to,faces%20this%20green%20skills%20challenge>



Policy 3:

Deliver a UK freight decarbonisation strategy and investment plan to provide industry with greater certainty in relation to decarbonisation



The problem:

For freight transport to play its necessary part in the transport decarbonisation transition, there will need to be major research and investment into both vehicle power chains and associated infrastructure.

Collectively, freight transport – encompassing road, rail and maritime – represents nearly 7% of UK carbon emissions. That number continues to rise, not only as other sectors decarbonise more quickly, making the proportional emissions greater, but also in real terms driven by the growing e-commerce sector. Road freight decarbonisation in particular has an estimated transition cost of around £20 billion for the UK⁴⁴, which includes fleet cost and on-land infrastructure such as charging and refuelling stations (electric, hydrogen etc), smart grids and updated road infrastructure. The nature and extent of investment needed to support the transition will be heavily dependent on the dominant alternative fuel solution. Decarbonising freight to meet current UK net zero targets is feasible, however it requires acceleration of investments.

Road freight is more fragmented than other sectors with no single option for mass decarbonisation. As a result, investments to date have predominantly been directed towards pilots and demonstration projects. More direct intervention by Government and guidance on how road freight should be decarbonised will enable greater private investment in the charging or refuelling infrastructure that will be needed.

On HGVs in particular, the Government has confirmed its intention to end the sale of new non-zero emissions HGVs weighing under or equal to 26 tonnes by 2035, with all new HGVs sold to be fully zero emission at the exhaust by 2040. Industry is keen to meet these goals and there is a growing demand for zero emission HGVs, but poor infrastructure and high costs are preventing the industry progressing. The UK is still a long way from having a reliable, market-ready zero emission HGV, and whilst battery power is a potential option for HGVs, at present, it is not a cost effective solution that investors can get behind.

What are the solutions?

A Publish a long-term freight decarbonisation strategy, which details freight transition targets.

The Government should maintain its commitment to publish a long-term decarbonisation plan for freight, with a focus on HGVs and larger vehicles. This would deliver certainty and unlock more investment in the production of alternative fuels. This strategy needs to detail how practical infrastructure will be put in place to support the Government's chosen alternative fuel ahead of 2050, especially in relation to the upcoming vehicle phase out dates. As an example of what is happening in other jurisdictions, in 2019 the US Senate passed the America's Transportation Infrastructure Act, which earmarked just under £800 million to support the development of fuelling infrastructure for electric, natural gas and hydrogen-powered vehicles⁴⁵.

Alongside this, the strategy should include a commitment to maintain the 2040 target on ending the sale of new petrol and diesel HGVs, with policymakers confirming they may revise the targets when infrastructure and demand improves. The strategy should also seek to include a response to the Government's consultation on freight, logistics, and planning, which would outline how local authorities should work with the logistics sector to assist in decarbonisation. This strategy should include a detailed net zero investment plan, emphasising how and where Government will be relying on both private and public investment to provide necessary infrastructure and transition support. The decarbonisation strategy would require no specific changes to current legislation.

⁴⁴ <https://www.csrf.ac.uk/wp-content/uploads/2020/11/SRF-WP-UKEMS-v2.pdf>

⁴⁵ [https://www.europarl.europa.eu/RegData/etudes/STUD/2021/690888/IPOL_STU\(2021\)690888_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2021/690888/IPOL_STU(2021)690888_EN.pdf)

Case Study: European CO2 standards for freight

In February 2023, the European Commission unveiled proposals to amend the EU's CO2 standards for trucks, in an attempt to reduce carbon emissions and achieve climate neutrality by 2050.

The revision requires new trucks to cut their emissions by 45% in 2030, 65% in 2035 and 90% in 2040, demanding high shares of zero-emission vehicles. Alongside this, it also extends the scope of vehicles regulated from 60% to 90% of Europe's heavy-duty sales.

To date, two manufacturers representing a third of European truck sales have pledged to only sell zero-emission vehicles by 2040, and have pledged toward ending the sale of fossil-fueled vehicles by the same date. Further to this, ten Member States have signed a Memorandum of Understanding pledging to enable a full transition to zero-emission trucks by 2040.

<https://theicct.org/pr-europe-co2-standards-trucks-feb-23/#:~:text=Expected%20rises%20in%20freight%20activity,the%20sector%20stays%20on%20track>

B Provide certainty to the transport sector on what is expected to be the fuel of choice for HGVs and other modes of transport not currently suited to electrification.

The freight sector's decarbonisation transition is being hampered by the lack of clarity and long-term strategy from Government. Whilst UKSIF is not advocating for one alternative fuel over another, Government needs to provide an element of certainty to the freight sector on what is expected to be the fuel of choice, to ensure business investment has limited risk. There is a need to de-risk investments, which the Government can help with by confirming the alternative fuels it expects HGVs to use in future, and the Government should articulate its preferred pathway for UK freight decarbonisation.⁴⁶ Mapping the least-cost technological pathways is a substantive piece of work and Government should seek to unleash their economic and analytical firepower to support this, potentially in collaboration with industry. This would require no specific changes to current legislation; rather the Government could confirm the fuel of choice through the freight decarbonisation strategy or its subsequent updates.

Method for delivery

- Government should publish a new freight decarbonisation strategy, with timelines for freight transition targets.
- Government should provide guidance to industry on its alternative fuel of choice for freight, through a new Strategy and Policy Statement, to allow for less risky investment in the freight and logistics industry.

Costs

- It is estimated that road freight decarbonisation will cost around £20 billion for fleet cost and on-land infrastructure, but this would be split between both public and private funding.⁴⁷ The Government has already invested £200 million into the decarbonisation of freight vehicles,⁴⁸ Elsewhere, the US' IRA has allocated \$3 billion (£2.4 billion) to enable the US Postal Service to purchase 66,000 battery electric vehicles by 2028, with acquisitions delivered in 2026 and thereafter expected to be 100% electric.⁴⁹
- Providing certainty for the alternative fuel also involves no significant Government cost, and investment in that alternative fuel will be provided for through private investment. There may be a need for small scale pilot schemes backed by the Government, similar to the Tees Valley Hydrogen Transport Hub, which was rewarded £8 million.

⁴⁷ <https://decarbonisingfreight.co.uk/wp-content/uploads/2023/10/Decarbonising-UK-Freight-Transport-final-report.pdf>

⁴⁸ <https://jameshartchorley.co.uk/governments-200-million-investment-to-drive-innovation-and-decarbonise-freight>

⁴⁹ (<https://www.energy.gov/sites/default/files/2023-01/the-us-national-blueprint-for-transportation-decarbonization.pdf>)

Outcomes

- 89% of large UK transport companies said they would benefit from the Government providing certainty on the expected fuel of choice for HGVs and other modes of transport not suited to electrification.
- 89% of those in the transport sector would welcome a long-term government strategy for freight decarbonisation.
- The Green Finance Institute has predicted that electrifying the UK's half a million HGVs comes with an investment opportunity worth £100 billion.⁵⁰
- The freight and logistics sector contributed £127 billion to the UK economy in 2022 and is a critical element of UK supply chains. Decarbonisation is therefore vital to ensure the growth of the economy is not put at risk.⁵⁰

⁵⁰ <https://www.greenfinanceinstitute.com/wp-content/uploads/2023/11/Delivering-Net-Zero.pdf>



⁴⁶ <https://committees.parliament.uk/committee/153/transport-committee/news/186465/government-must-pick-winners-by-investing-in-lowcarbon-fuels-for-aviation-and-rail-says-transport-committee>

Acknowledgments

UKSIF has worked closely with organisations and businesses across the transport sector to understand what policies will be needed to unlock greater investment in the drive to net zero and decarbonisation:

Brian Henderson Head of Sustainable Investment UK at Mercer

"The lack of a clear long-term strategy for the UK's automotive sector is hindering investor confidence and stalling progress towards net zero. Without a commitment to upskilling and attracting new investment, especially in established automotive hubs like the West Midlands, the emerging skills shortage will deepen and the UK will fall further behind in the race to attract green finance to our transport sector.

Mercer's 2024 Global Talent Trends research shows that leveraging emerging technologies like EVs or embracing digital solutions such as AI accelerates an organization's ability to adapt to evolving market demands and gain a competitive edge.

Bold policy decisions are necessary though to nurture home-grown talent and ensure the UK maintains its competitive edge. Investor confidence in the UK's automotive sector is failing due to a lack of clear direction from policymakers. Regaining investor confidence necessitates a robust and transparent long-term strategy that empowers businesses to contribute to a greener future."

Edward Jones Head of Environment Policy at Logistics UK

"The logistics sector is embracing the decarbonisation agenda and is committed to playing its part to help the UK achieve net zero. To achieve this, we need an agreed roadmap to deliver a fair transition and unlock private investment. Logistics UK therefore supports UKSIF's recommendation to deliver a UK freight decarbonisation strategy and investment plan to provide industry with greater certainty."

Ashton Cull Public Affairs Manager at Road Haulage Association

"The road haulage industry supports Net Zero and is determined to make the transition work for all businesses, including our vital small businesses. However, there is simply not enough certainty on what the fuel of the future will be. Firms need that clarity to inform their investment decisions for the next buying cycle (around 15 years) – both the current cost and the stranded asset risk are too high.

"That is why a long-term decarbonisation strategy for UK freight is essential. Logistics businesses are by their nature adaptable – once the direction of travel is set, they will be able to respond appropriately – all they need is that certainty. We look to the incoming Government to get that strategy in place in the early stages of the next parliament."

Ben Scott Head of Automotive at Carbon Tracker

"At Carbon Tracker, we know that decarbonising transport is a major piece of the puzzle as the world moves away from fossil fuels. We also know we're slipping behind our Paris climate goals. The UK transport sector needs clear policy signals to drive investment into decarbonisation. Unless the UK can reclaim its leadership position on electric vehicle policy, supported by an automotive industrial strategy proportionate to the scale of transformation that the industry is undergoing, investors will instead continue to deploy significant capital in the EU or US, putting the UK automotive industry's long-term future at risk. If the UK gets it right, it stands to unlock great green jobs, cleaner air, and a clear path to net-zero."

Juliet Flamank Associate Director for Transport at Green Finance Institute

"UKSIF's transport manifesto outlines the key building blocks to reaching the UK's net zero goals in transport at pace.

We need long, loud, clear policy signals to the market and consumers to achieve our ambitious targets and lead the world in the transport transition. This needs to be alongside the right support and investment, such as our Battery Investment Facility, which aims to help build a homegrown supply chain here in the UK.

UKSIF also rightly acknowledges the need to consider the transport transition more widely, given that the emissions from HGVs are equivalent to the carbon footprint of domestic and international air travel, buses and domestic shipping combined – and electrifying them offers a £100 billion investment opportunity."

Ben Nelmes CEO at New Automotive

"The present Government's California-style EV mandate is a game-changer for the industry. The task facing the next government is the hard yards of implementation, tackling the barriers to chargepoint rollout and making it easier for consumers to switch. Ministers also need to bring forward legislation to meet the commitment to decarbonise HGVs, which account for the remaining 20% of transport emissions by 2040 – for which electrification is the natural solution. All the parties vying to form the next Government should therefore study these recommendations from the crucial finance sector closely."

Research methodology:

UKSIF commissioned an online survey with n=400 business decision-makers working in large companies across the UK. Survey respondents were sampled from four sectors: n=100 in Energy, n=100 in Financials, n=100 in Transportation, and n=100 in real estate. Survey respondents were key business decision-makers who work in companies with an average annual turnover of over £7 billion. The survey ran from 2 – 22 February 2024.

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