The road ahead for electric cars relies on affordability, not scrapping grants

July 7 2022, by David Bailey and Phil Tomlinson

Credit: AI-generated image (disclaimer)

Since 2011, the U.K. government has been providing a tax-payer funded discount on the sale of battery electric vehicles. Known as the "plug-in car grant," it was designed to help persuade motorists make the switch from diesel or petrol and commit to electric driving.

But last month the grant was scrapped with immediate effect. It wasn't exactly a surprise, given that the amount buyers were able to claim back had gradually been whittled down from £5,000 to £1,500; or that it was recently available only for new vehicles costing less than £32,000 (the average cost of electric cars is around £43,000).

In fact, the government had been trying to scrap the grant completely for a while. Only a major backlash a couple of years ago forced the government to do a speedy handbrake turn and keep it going for a while longer.

Now though, the high level of demand for electric vehicles appears to have given the Treasury the green light to pull the plug once and for all. Instead it is apparently opting for a "shift in focus" towards charging infrastructure, although no new money has been announced for this.

The government's argument for scrapping the subsidy is that it has already done its job of getting the wheels of the electric car market moving. There are also significant financial benefits to owning an electric car such as reduced running costs, and no road tax bill.

And it is true that the market for electric vehicles is strengthening. Prices have come down, the range of models has improved, and it is estimated that one in four cars sold in the U.K. and EU this year could be battery powered.

But that could quickly change. Other countries which have withdrawn financial support for car buyers have seen a dip in demand for electric cars.

For now, the government is essentially saying it will switch towards supporting the charging infrastructure and company car buyers.

At first glance, targeting the purchase of company cars makes sense. Lots of firms buy new cars, and their drivers tend to clock up more miles than private owners. So if they can be encouraged to buy electric cars, this will help reduce CO_2 emissions on the roads.

After two or three years, those company cars are fed into the used car market, potentially increasing the number of electric vehicles available.

But it raises a big question over fairness. Subsidizing company cars provides savings to business owners, and employees who may benefit from company car tax breaks. Opting for an electric vehicle is becoming an increasingly obvious choice for managers and business owners, with a tax system designed to assist them.

So far, so good—for the relatively well off. In affluent areas of the U.K., shiny new Teslas, Polestars, e-Trons plugged into the domestic electricity supply have become a common sight on driveways.

Driving away business

In poorer areas, they are much less common, and so are the driveways. But those with their own private home charging point enjoy much cheaper rates, because plugging into an on-street charging point means paying 20% VAT on the electricity rather than the 5% of a domestic tariff.

So while targeting company cars and fleet drivers makes some sense in promoting wider electric vehicle uptake, the policy seems pretty regressive. The government seems to have forgotten about helping the less well off into electric vehicles.

In contrast, New Zealand recently announced a "clean car upgrade program" which aims to help low and middle income families into low-emission cars through what is effectively a scrap-and-replace scheme. In Scotland, a new plan offers interest-free loans to anyone looking to buy a new or used electric cars. It will be interesting to see whether these ideas have the desired effect.

Meanwhile, the global car industry is being severely constrained by the chip shortage. In the U.K., it also finds itself under pressure from the shift in approach which now favors the "stick" of economic mandates over the "carrot" of widely available grants.

Under the zero emission vehicle mandate, manufacturers will be required to sell a certain proportion of electric vehicles before 2030. If they don't hit the targets they will be fined.

Unsurprisingly, the government's latest moves have not gone down well with a car industry struggling in a difficult economic climate. And nor should the government forget the economic challenges for drivers of soaring petrol prices and the rising cost of living. If it wants more of them to make the switch to electric vehicles, it should be much more focused on making them an affordable option for as many motorists as possible.

Provided by The Conversation

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