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Vehicle scrappage schemes

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Summary

This paper gives a brief overview of the debates about vehicle scrappage schemes in recent years – from the 2009 scrappage scheme introduced by the Labour Government to calls from 2015 onwards for a new diesel scrappage scheme to help improve air quality.

In essence, a 'vehicle scrappage scheme' involves some sort of incentive for a vehicle owner to scrap their vehicle – either by trading it in for a new one or for some other sort of benefit (e.g. free travel on public transport).

There was one scrappage scheme in the UK in 2009, designed to help the motor industry through the recession which followed the financial crash. It essentially gave vehicle owners £2,000 (co-funded by the Government and the car industry) if they scrapped their old vehicle and bought a new one. There were eligibility criteria associated and specifications as to what sort of new vehicle must be purchased. Almost 400,000 claims were submitted under the scheme.

The issue then died away until 2015, when a combination of factors involving air quality standards, diesel emissions and emissions cheating came to light, providing a 'perfect storm' for renewed interest in getting older, polluting vehicles off the road. There have been a number of different suggestions put forward for a scrappage scheme, targeted at older, diesel-powered vehicles, but the Government has to date remained cool on the idea. The motor industry has instead launched a slew of schemes, there are over 20 available to consumers at present.

Most recently, the Government issued a consultation in November 2017 seeking views on additional measures to support individuals and businesses affected by local NO_2 plans, including targeted scrappage schemes.

Further information on road transport issues can be found on the Roads briefings page of the Parliament website.

1. Are scrappage schemes a good idea?

The success or otherwise of scrappage schemes can be measured by different criteria, depending on what intended aim or policy is driving the scheme.

There was a great deal of debate about scrappage schemes in 2009 when the Labour Government introduced its scheme. There were concerns that it might only boost car sales temporarily by bringing forward future demand and that when the scheme was wound up new car sales could fall, even if the economy was recovering.[1] There were also concerned about diverting consumer spending from other sectors of the economy to new cars and 'picking winners' and that the UK taxpayer could be effectively subsidising foreign automobile companies.[2] In an editorial, the *Financial Times* argued that there was "no sound economic reason to sustain the capacity to produce cars that consumers are unwilling to pay for in full".[3] *The Economist* also noted that despite the short-term boost to demand that scrappage schemes could provide, their effects over the longer term were less certain.[4]

In March 2010 the National Audit Office (NAO) reported on the then Department for Business, Innovation and Skills (BIS)'s support to business during the recession, including the scrappage scheme. It stated that the UK scheme "successfully avoided some of the pitfalls encountered elsewhere".[5] However, the Government had assessed the potential economic impact and forecast that, in the longer term, the costs of the scheme would exceed benefits and would not, therefore, provide value for money. Lord Mandelson decided to proceed with the scheme "for several reasons including that sales made during a recession were worth more than those made in the future, when the sector had recovered and the risk of doing nothing outweighed the possible scheme costs".[6]

While at the time it published its report the NAO considered that it was too early to assess the full impact of the schemes on business and the economy, it did state that since the inception of the scheme, dealers had reported an increased demand for cars, and there had been a modest environmental benefit as more carbon-efficient cars replaced old ones. However, the sector anticipated that sales would be affected by the scheme's withdrawal.[7]

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[1] See, e.g. "Clunky but effective", *The Economist*, 4 August 2009 and Oxford Economics, *UK Sectoral Prospects: Autumn 2009*, p28
[2] See, e.g. "Clunk-clicked", *The Economist*, 18 April 2009, p39; "Crushing problems" [leader article], *Financial Times*, 15 April 2009 and "Underpowered", *The Economist*, 18 April 2009, p32
[3] "New cars for old" [leader article], *Financial Times*, 4 August 2009
[4] "Small isn't beautiful", *The Economist*, 19 September 2009, p79
[5] NAO, *Department for Business, Innovation and Skills: Support to business during a recession*, HC 490, 26 March 2010, para 2.11
[6] Ibid., para 2.23
[7] Ibid., para 2.26

Impacts of the 2009 scheme

Vehicle production in the UK fell by over 50% in early 2009 compared with the same period in 2008. After the introduction of the scrappage scheme in May 2009 the rate of decline moderated, although by August 2009 production remained down compared with a year previously. The number of **new car registrations** increased, with July and August 2009 both seeing increases on a year previously. [SMMT historic data].

In a July 2009 report the Business and Enterprise Committee heard that the UK imported at that time 80% of cars bought, so it was questionable how far the scrappage scheme benefitted UK business. [8] However, some argued that similar scrappage schemes across Europe may have led to increased demand for vehicles produced in the UK. For example, SMMT chief executive Paul Everitt said that "[t]he slowdown in the rate of decline of UK car production reflects the impact of the scrappage incentive schemes in place across Europe".[9]

The Government estimated a short term stimulus to the value of UK vehicles sales worth approximately £2.8 billion by the time the scheme ended. This did not take into account the impact on other sectors (e.g. suppliers, the second-hand car market etc.).[10]

More recently scrappage schemes have again been in the news following the 'dieselgate' scandal, prompting renewed interest in what their potential benefits or otherwise might be. In April 2016 the RAC Foundation did some analysis which looked at what might happen if a scheme was implemented along the same lines as that run in 2009/10 and took roughly the same number of vehicles off the road. It concluded that:

> … if … 400,000 older cars [were] replaced with a new zero-emission electric vehicle then the cut in annual NOx emissions from the diesel fleet would be about 4,900 tonnes or 3.2% of the total emissions from diesel cars. This drops to 2,000 tonnes per annum (1.3% of the total) if the scrapped cars were replaced with the latest Euro 6 diesel models and driven the same distance as those scrapped.[11]

In April 2017 Greener Journeys published a report on air quality in towns and cities. As regards a scrappage scheme it argued that bus retrofitting would be far better value than car scrappage:

> Government financial support for bus retrofitting provides more than 15 times as much value as scrappage allowances for diesel cars to convert to Euro 6 or electric, and 11 times as much value from a bus scrappage scheme compared with diesel car scrappage.[12]

They calculated that to save 1kg of nitrogen oxide (NOx) per annum a diesel car scrappage scheme would cost the Treasury £175 while bus retrofitting and scrappage came in at £12 and £16 respectively.[13]

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[8] Business and Enterprise Committee, *The Automotive Industry in the UK* (Ninth Report of Session 2008–09), HC 550, 17 July 2009, Q18
[9] SMMT press notice, "July UK vehicle production figures", 21 August 2009
[10] HC Deb 8 February 2011, c213W
[11] RAC Foundation, *Would a national diesel scrappage scheme work?*, 11 April 2016
[12] Greener Journeys, *Improving Air Quality in Towns and Cities: Why buses are an integral part of the solution*, April 2017, p8
[13] Ibid., p8

2. 2009 vehicle scrappage scheme

Against the backdrop of the recession, car production and new car sales had fallen sharply at the end of 2008 and in early 2009. During Q1 2009 total vehicle production in the UK was 57% lower than in the same period a year before, while new car registrations were down by 30%.[14]

A similar picture of depressed demand was also evident elsewhere. In an attempt to boost demand, a number of countries introduced car scrappage schemes, including France and Germany. After initial reports that these had resulted in increased car sales (in Germany sales were up 40% on an annual basis in March 2009),[15] industry groups called for a scrappage scheme to be introduced in the UK.[16]

The then Chancellor, Alistair Darling, announced the introduction of a car scrappage scheme in the 2009 Budget. He said:

> I … want to help the UK's automotive industry, which has been one of Britain's success stories over the last decade. But the loss of consumer confidence and the credit crunch have led to a sharp fall in vehicle sales around the world. In order to help the car industry and retail trade, I can announce that we will implement a scrappage scheme next month. It will provide motorists with a £2,000 discount on new cars bought when they trade in cars over 10 years old. It will be a time-limited scheme until March 2010.[17]

The scheme was officially launched on 18 May 2009 and closed at the end of March 2010.[18]

At the Labour Party Conference on 28 September 2009, the Business Secretary, Lord Mandelson, announced changes to the eligibility rules and to the amount of financing available (see below).[19] The extension of the scheme was widely welcomed.[20]

2.1 Eligibility

For several months at the beginning of the scheme, in order to be eligible for the scheme vehicles has to be first registered in the UK before 31 August 1999. However, in September 2009 Lord Mandelson announced that the registration dates for eligible vehicles had been

[14] HC Library calculations from Society of Motor Manufacturers and Traders (SMMT) data; see also HC Library briefing paper on motor industry statistics, CBP 611

[15] European Automobile Manufacturers Association (ACEA) press notice, "PASSENGER CARS: European market down 17.2% in first quarter 2009", 16 April 2009

[16] See, e.g. SMMT calling for scrappage scheme: "Carmakers attack trade-in plan", *Financial Times*, 13 April 2009 and AA: AA press notice, "Government must act on introduction of a car scrappage scheme", 20 March 2009

[17] HC Deb 22 April 2009, c242 and HM Treasury, *Budget 2009*, 22 Apr 2009, HC 407, para 4.16

[18] BIS, *Vehicle scrappage scheme* [archived 14 December 2010]

[19] Labour Party, *Peter Mandelson's speech to the 2009 Labour Party Annual Conference*, 28 September 2009

[20] See, e.g. EEF press notice, "EEF welcomes car scrappage extension", 28 September 2009 and Nissan UK press notice, "Scrappage Schemes Extended – By The Government And By Nissan", 28 September 2009

brought forward to 29 February 2000 for cars and 28 February 2002 for vans.[21]

Eligible vehicles could be traded in for a £2,000 discount off a new vehicle, as long as the eligible vehicle met certain conditions; these were that the vehicle should:

- be registered with the current owner for the past 12 months;
- be insured;
- have a current tax disc;
- have a current MOT test certificate; and
- weigh less than 3.5 tonnes.

The *new vehicle* had to weigh less than 3.5 tonnes and have no former keepers, i.e. the customer must be the first registered keeper of the vehicle. On agreement of a sale, the dealer would organise the paperwork and arrange for the old vehicle to be scrapped.[22]

The manufacturer of the new vehicle had to be signed up to the scheme. Of the £2,000 discount, the Government provided £1,000 and the manufacturer provided the other £1,000. According to the Department for Business, Innovation and Skills (BIS), 38 manufacturers representing 41 marques/brands participated in the scheme.[23]

2.2 Funding

The Government originally put £300 million towards funding the scheme. In September 2009 this was increased by £100 million, to a total of £400 million.[24] Announcing the increase Lord Mandelson said:

> Our car scrappage scheme has been so successful the money is running out. The industry has asked that the scheme be topped up. Conference, we cannot do everything but that does not mean doing nothing. So today I am extending our popular car scrappage scheme with extra money for an additional 100,000 cars and vans.[25]

2.3 Number of vehicles sold

As indicated in section 1, above, in March 2010 the NAO published a report on the work of BIS to support businesses during the recession. On the scrappage scheme they concluded that between April and December 2009 demand for the scheme peaked at just over 50,000 in

[21] BIS press notice, "Van Man Gets Extra Boost With Government Increase In Scrappage Funds", 28 September 2009

[22] BIS, *Vehicle Scrappage Scheme: Frequently Asked Questions (FAQs)*; and Directgov, *The vehicle discount scheme – money off your new vehicle* [both archived 4 March 2010]

[23] For a full list see BIS, *Vehicle Scrappage Scheme* [archived 6 March 2012]

[24] Op cit., "Van Man Gets Extra Boost With Government Increase In Scrappage Funds"

[25] Op cit., *Peter Mandelson's speech to the 2009 Labour Party Annual Conference*; this followed concerns from the car industry that underlying demand remained weak and that the recovery was fragile leading to fears that a quick end to the scheme could be harmful, see. e.g. SMMT press notice, "August UK vehicle production figures", 25 September 2009

June 2009 then gradually declined to less than 20,000 in December.[26] Overall, NAO found that to 31 December 2009 there had been:

- 282,898 car orders
- 231,787 deliveries
- 282,749 car registrations

Take up had been "better than expected".[27]

BIS revealed in response to a 2014 FOI request that 392,227 claims had been submitted under the scheme.[28]

US 'Cash for Clunkers' scheme

The US Government adopted a similar scheme to the UK to help their car industry cope with the recession. The 'Car Allowance Rebate System' (CARS), colloquially known as 'cash for clunkers' ran for 8 weeks in 2009.

In less than a month, the entire $1 billion allotted by Congress to the program had been used up. So legislators approved an additional $2 billion, which ran out before the end of August 2009 – two months ahead of schedule.[29]

The scheme generated an immediate spike in car sales. However, a paper published on the five year anniversary of the scheme in 2014 suggested that the program may have decreased total spending on new motor vehicles creating a net-drag on the economy.[30] Some stated that the scheme simply brought forward spending which would have happened anyway and that some of the biggest beneficiaries of the scheme were Japanese automakers, not American ones.[31]

[26] Op cit., *Department for Business, Innovation and Skills: Support to business during a recession*, fig.10, p20
[27] Ibid., fig 11, p23
[28] BIS, *FOI release: Car scrappage scheme in 2009*, 24 September 2014; the spreadsheet lists the number of claims for each make and model of vehicle
[29] "It's been 5 years since Cash For Clunkers, was it a success?", *Auto blog*, 4 August 2014
[30] "Cash for clunkers revisited: Putting cars into reverse", *The Economist*, 7 August 2014
[31] Op cit., It's been 5 years since Cash For Clunkers, was it a success? and Brookings Institute, *Cash for Clunkers: An Evaluation of the Car Allowance Rebate System*, 30 October 2013

3. Diesel scrappage schemes, 2017-

3.1 Background

Roughly a third of nitrogen oxide emissions come from road transport, and levels have remained flat since 2011, despite stricter emissions standards for all vehicles. Older diesel vehicles are significant contributors but not the only cause, as became evident during the 'dieselgate' scandal.

In 2015 the US Environmental Protection Agency issued a notice alleging that Volkswagen and Audi diesel cars from model years 2009–2015 included software that circumvented emissions standards for certain air pollutants (so-called 'defeat devices') in diesel cars. VW admitted that this software affected nearly 1.2 million UK-registered vehicles. Other manufacturers have also since been implicated.

An overview of the VW emissions scandal and the wider issues of 'real world' vehicle emissions testing can be found in the Transport Select Committee's July 2016 report *Volkswagen emissions scandal and vehicle type approval*.

This led to a worldwide trail of inquiries looking into 'real world' emissions from vehicles across several brands. The best analysis of typical VW cars in real-world driving conditions found NOx emissions of around 0.6g/km, over three times higher than the latest Euro 6 standard of 0.18g/km. [32]

Diesel vehicle owners were angry at the manufacturers' deception and at governments that had encouraged the buying of diesel vehicles in the 1980s and 1990s as part of a strategy to reduce CO2 emissions. They are also likely to be amongst those most affected by measures to address the problem, such as an increase in fuel duty on diesel, changes to the car tax (VED) system, or the introduction of a scrappage scheme.

There have been different suggestions for a diesel scrappage scheme. For example the Mayor of London, Sadiq Khan, published detailed proposals in February 2017, calling for a diesel scrappage fund to include:

- payments of £3,500 to scrap up to 70,000 polluting vans and minibuses in London and a national fund to support charities and small businesses that often own older diesel and mini buses (approximately £245 million in London)
- a credit scheme valued at £2,000 to help low-income households in cities (those with incomes lower than £231.60 per week after housing costs) scrap up to 130,000 polluting cars, with incentives for car clubs (costing approximately £260 million in London);
- payments of £1,000 to help scrap up to 10,000 older polluting London taxis (this is in addition to extra TfL help for drivers to upgrade to greener taxis): traditionally the taxi trade has had a limited choice of heavy, polluting diesel vehicles but this proposed fund would be used alongside

[32] "Clean air in our cities", *Second Reading blog*, 20 June 2017

> wider existing support to help drivers switch to new zero-emission models (approximately £10 million in London).[33]

Also in February 2017 the think tank ResPublica published proposals for Pollution Reduction Vouchers to scrap polluting old cars:

> We propose, rather than a national scrappage scheme, locally-targeted Pollution Reduction Vouchers funded from Clean Air Zone user charging and new vehicle registration. A very similar scheme to this operates in Southern California. Pollution Reduction Vouchers would be available to households earning less than 60% of the median UK household income, living in a city-region with a Clean Air Zone and owning a noncompliant vehicle purchased before a cut-off point. They could be exchanged for:
>
> - Retrofitting of a noncompliant petrol car with LPG (Liquefied Petroleum Gas) fuel. For other cars (if technically possible), Euro-6 standard exhaust control.
> - Scrapping a noncompliant vehicle and value towards a low-emission vehicle.
> - Scrapping a noncompliant vehicle and value towards a car-club membership, public transport yearly ticket, or bike.
>
> Pollution Reduction Vouchers, of £1000 each, would be funded by revenue from Clean Air Zone user charging, and from a £10 addition to Vehicle Registration Fees. This could raise up to £30m.[34]

Scrappage schemes in California

In the US state of California there is a Consumer Assistance Program (CAP), administered by the Bureau of Automotive Repair (BAR) and designed to help improve California's air quality.

The amount of compensation offered in return for the vehicle depends on the income of the owner. If the owner is classified as low income they are entitled to receive $1,500 for their vehicle. All other vehicle owners are entitled to receive $1,000 if their vehicle qualifies for the scrappage scheme.

CAP is offered throughout the state. If a car does not qualify for this programme, owners in certain areas may qualify for local scrappage schemes. These are listed on the California Air Resources Board website.

Statistics are available for an enhanced version of the program offered in two districts, Joaquin Valley Air Pollution Control District and the South Coast Air Quality Management District: take up of the enhanced 'retire and replace' programme in the two districts between 1 July 2015 and 30 June 2017 was 2,456 vehicles

The 'Retire and Replace' program offered in these areas goes one step further than the retirement-only program by providing up to $4,500 to lower-income drivers who scrap an old vehicle and buy a cleaner and more fuel-efficient replacement vehicle. Alternative transportation mobility options, such as transit passes, are also available in lieu of a replacement vehicle purchase.

In August 2017 Alistair Kirkbride, Director of Carplus Bikeplus, suggested in *Local Transport Today* that any scrappage scheme for

[33] Mayor of London press notice, "Mayor calls on Government to adopt diesel scrappage fund", 13 February 2017

[34] ResPublica, *Air Necessities: Place-based approaches to a pollution crisis*, 15 February 2017, p16

diesels should explicitly include mobility packages as an option (see, e.g. the scheme in Southern California, above):

> If we are confident that urban mobility is fit for purpose, then shifting from owned diesels to mobility packages cuts out the intervening step on non-diesel car ownership – and hence mainlines to reduced mileage and hence effective emissions reduction. Most cities have car share schemes, so this does not block access to car use.[35]

3.2 A Government scrappage scheme?

MPs first started pressing the Government on a diesel scrappage scheme towards the end of 2015, though there were no Parliamentary questions on the subject until 2016.[36] This followed comment by the Commons Environmental Audit Committee in 2014 and 2015 urging the Government to consider "a scheme to allow diesel vehicle owners to retrofit their engines, or a national vehicle scrappage scheme which reflects the different circumstances, costs and benefits in urban and rural areas".[37]

The Government has not as yet committed to a scrappage scheme and it was not mentioned in the March 2017 Budget. However, the Chancellor indicated that if there were going to be changes affecting diesel it would not be until the autumn.[38] The Government's Air Quality Plan (AQP) for nitrogen dioxide (NO2), published on 31 July 2017, indicated that there would be a consultation in autumn 2017 on measures to help mitigate the impact of air quality on individuals and businesses, including views on the viability of a scrappage scheme.[39] At time of publication the consultation yet to be published.

The July 2017 AQP indicated that the Government was generally cool on the idea of a scrappage scheme and would need to be convinced of its merits:

> … it is clear that a number of issues remain with … mitigation options and in particular with scrappage schemes – analysis of previous schemes has shown poor value for the taxpayer and that they are open to a degree of fraud … The government welcomes views from stakeholders in the forthcoming consultation on whether it is possible to overcome these issues, alongside any wider options that should be considered. All proposals considered for government support would need to demonstrate that support can be targeted to those who need it most and that any scheme could be delivered effectively with minimal risk of fraud or abuse. Proposals considered would also need to demonstrate that they offer clear value for taxpayer's money. Finally, given all measures will be funded by relevant taxes on new diesel cars alongside

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[35] "The end of diesel and petrol cars? What about changing mobility?", *Local Transport Today*, 4 August 2017 [LTT 728]

[36] See, e.g. Diesel Vehicles: Exhaust Emissions: Written question – 35809, 4 May 2016

[37] EAC press notice, "Rebalance VED and consider scrappage scheme to discourage diesel", 20 November 2015

[38] HMT, *Spring Budget 2017*, HC 1025, 8 March 2017, para 5.11

[39] Defra, *UK plan for tackling roadside nitrogen dioxide concentrations: detailed plan*, 31 July 2017, para 118

> existing departmental budgets, proposals put forward would need to be fair to the taxpayers who would fund any measures.[40]

On 22 November 2017 Defra issued a consultation seeking views on additional measures to support individuals and businesses affected by local NO_2 plans, including targeted scrappage schemes. The paper stated:

> Considering the recent introduction of scrappage schemes by a number of manufacturers, we are interested in gathering evidence of whether there is a role for further targeted schemes – and if so, how any taxpayer-funded scheme could be designed so that it complements existing schemes, represents value for money, is deliverable without introducing significant fraud risk, and is suitably targeted.[41]

The sorts of things which could be included in a targeted scheme might be specific types of vehicle, vehicles regularly driving into areas with high NO2 exceedances, low income households and/or the sort of 'reward' to be made available.[42]

The consultation closed on 5 January 2018; the Government has yet to issue a response.

3.3 Industry schemes

While there is as yet no Government-backed scrappage scheme, a number of motor manufacturers are offering financial incentives to scrap an old vehicle and replace it with a new model.

A list of the schemes currently available, including the general financial offering and eligibility criteria, is available on the *AutoCar* website.[43] At time of publication they are:

Lexus, Mitsubishi, Dacia, Uber, Peugeot, Citroën, DS, Suzuki, Mazda, MG, Fiat, Kia, Renault, Nissan, Audi, Seat, Skoda, Volkswagen, Toyota, Hyundai, Ford, Mercedes-Benz, BMW, Mini, and Vauxhall.

In October 2017 Rob Adams of *AutoCar* wrote in *The Independent* that:

> Unlike the first scrappage scheme that ran a few years ago, these [industry schemes] are not backed by the government; all the savings are coming out the pocket of car makers, which means there are a far greater number of different approaches. Some don't even stipulate the old cars must be scrapped.[44]

Some have expressed a view that the schemes are a 'marketing initiative' by the motor industry, but that this does not invalidate their potentially positive impacts on getting older, more polluting vehicles off the roads.[45]

[40] Ibid., para 119, see also the box on p38
[41] Defra & DfT, *Consultation on additional measures to support individuals and businesses affected by local NO2 plans*, 22 November 2017, para 34
[42] Ibid., para 34
[43] See also: RAC, *Diesel scrappage schemes – a simple guide*, 12 September 2017
[44] "Do car scrappage schemes offer good value for money?", *The Independent*, 2 October 2017
[45] See, e.g. James Baggott, editor-in-chief of *Car Dealer*, quoted in: "Diesel 'scrappage' schemes may herald price war between car companies", *Daily Telegraph*, 3 September 2017

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