



Vehicle scrappage scheme

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Author: Daniel Harari

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This note provides an overview of the Government's vehicle scrappage scheme, with information on how it operates, the number of vehicles ordered under it and its impact on the automotive sector in general.

To be eligible, an individual must trade in a car that is at least 10 years old for scrapping (or at least 8 years old for a van) in exchange for a £2,000 discount off the price of a new vehicle. The Government and the car's manufacturer each provide half of the £2,000 outlay.

The Government has allocated £400 million for the scheme (originally £300 million plus an additional £100 million announced on 28 September 2009), enough for up to 400,000 new vehicles. It was introduced in May 2009 in order to provide a boost to the automotive sector which had seen car sales decline sharply during the recession, and will run until the end of February 2010 or until funding has run out. As of 20 September 2009, 227,750 orders for new vehicles have been taken under the scheme.

Contents

1	Background	2
2	How the scheme operates	2
	2.1 Eligibility	2
	2.2 Number of vehicles sold	3
	2.3 Government funding	3
3	Expansion of scheme	4
4	Effect on automotive sector	4
5	Arguments against scrappage schemes	6
6	Further information	7

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1 Background

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%.¹

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)², industry groups called for a scrappage scheme to be introduced in the UK.³

The Chancellor, Alistair Darling, announced the introduction of a car scrappage scheme in the Budget on 22 April 2009. It was to begin in May and was intended, "To give a boost to the car industry during the current downturn."⁴ The scheme was officially launched on 18 May 2009.⁵

2 How the scheme operates

2.1 Eligibility

A car that was first registered in the UK before 29 February 2000 (28 February 2002 for vans) can be traded in for a £2,000 discount off a new vehicle, as long as certain conditions are met.⁶ The old 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
- weigh less than 3.5 tonnes

The new vehicle must also weigh less than 3.5 tonnes and have no former keepers, i.e. the customer must be the first registered keeper of the vehicle. If a sale is agreed the dealer will organise the paperwork and arrange for the old vehicle to be scrapped.⁷

The manufacturer of the new vehicle must also be signed up to the scheme. Of the £2,000 discount, the Government provides £1,000 and the manufacturer provides the other £1,000.

¹ Library calculations from Society of Motor Manufacturers and Traders (SMMT) data (available [here](#))

² European Automobile Manufacturers Association (ACEA) Press Release, "[PASSENGER CARS: European market down 17.2% in first quarter 2009](#)", 16 Apr 2009

³ For example, see SMMT calling for scrappage scheme: "[Carmakers attack trade-in plan](#)", *Financial Times*, 13 Apr 2009, p2 and the AA, "[Government must act on introduction of a car scrappage scheme](#)", 20 Mar 2009

⁴ HM Treasury, *Budget 2009*, 22 Apr 2009, HC 407, p75, para 4.16

⁵ Department for Business, Innovation and Skills (BIS), [Vehicle Scrappage Scheme](#)

⁶ Prior to the scheme's extension cars and vans had to be first registered in the UK before 31 August 1999.

⁷ BIS, [Vehicle Scrappage Scheme: Frequently Asked Questions \(FAQs\)](#) and Directgov, [The vehicle discount scheme – money off your new vehicle](#) [retrieved 28 Sep 2009]

The Department for Business, Innovation and Skills (BIS) states that 41 manufacturers are participating in the scheme.⁸

For further, more detailed information on the scheme's rules please see frequently asked questions section on the BIS website.⁹ Information is also available from Directgov.¹⁰

2.2 Number of vehicles sold

BIS keeps a record of the number of orders that have been placed for new vehicles under the scrappage scheme. A total of 227,750 orders had been taken up to 20 September. These figures are updated on a weekly basis.¹¹

BIS, in a 10 August 2009 press release, stated that new cars being bought were, on average, more environmentally-friendly than the cars they were replacing.¹²

[...] on average, new cars bought under the scheme have CO2 emissions that are 25% lower than the cars scrapped. The average CO2 figure for scrapped cars is estimated to be at least 179 g/km, compared to a much lower 133.9 g/km emissions average for cars bought through the scheme.

2.3 Government funding

The Government originally put £300 million towards funding the scheme, which began on 18 May 2009. This was later increased by £100 million, to a total of £400 million, on 28 September 2009.¹³ With each new vehicle sold costing the Government £1,000 (the car's manufacturer also contributes £1,000) up to 400,000 new vehicles are available for purchase under the initiative.

The scheme will remain in operation until the end of February 2010 or until funding has been exhausted – whichever happens first.

With the scheme having increased demand for car sales (see Section 4 for more) it appeared that the original £300 million worth of Government funding would run out before the February 2010 deadline. This led to calls from many organisations, particularly from within the automotive industry, for the Government to extend the scheme.¹⁴

There were fears from these groups that once the initiative had expired, car sales and car production would be hit by underlying weak demand (partly because some consumers have brought forward their plans to purchase a new car in order to take advantage of the discount) and the planned increase in the VAT rate from 15% to 17.5% on 1 January 2010.¹⁵

Before the Government announcement that the scheme's funding would be increased, Paul Everitt, the Chief Executive of the SMMT, the trade association of the UK motor industry, voiced these concerns, saying:¹⁶

⁸ For a full list see <http://www.berr.gov.uk/whatwedo/sectors/automotive/scrappage/page51068.html>

⁹ Department for Business, Innovation and Skills (BIS), [Vehicle Scrappage Scheme: Frequently Asked Questions \(FAQs\)](#)

¹⁰ Directgov, [The vehicle discount scheme – money off your new vehicle](#)

¹¹ For latest figures see <http://www.berr.gov.uk/whatwedo/sectors/automotive/scrappage/page51068.html>

¹² BIS Press Release, [Government Scrappage Scheme reaches halfway mark](#), 10 Aug 2009.

¹³ BIS Press Release, [Van Man Gets Extra Boost With Government Increase In Scrappage Funds](#), 28 Sep 2009

¹⁴ ["Business leaders urge government to extend its car scrappage scheme"](#), *Observer*, 26 Sep 2009

¹⁵ For example SMMT Press Release, [SMMT calls for Scrappage Scheme extension](#), 18 Sep 2009

¹⁶ SMMT, ["August UK vehicle production figures"](#), 25 Sep 2009

[...] underlying demand remains weak and the recovery is still extremely fragile. A continuation of the scrappage incentive scheme through to the original close date of 28 February 2010 would help to sustain growth and bridge uncertainties associated with the ending of VAT discount.

3 Expansion of scheme

At the Labour Party Conference on 28 September 2009, the Business Secretary Lord Mandelson announced that Government funding of the vehicle scrappage scheme would be increased by £100 million to £400 million:¹⁷

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.

Eligibility rules were also modified (see Section 2.1), with the age qualification for cars and vans changed. Vehicles to be scrapped now need to have been first registered in the UK prior to 29 February 2000 for cars and 28 February 2002 for vans (previously 31 August 1999).¹⁸ The rest of the scheme's rules remain unchanged.¹⁹

Reaction to the news was positive from within the manufacturing sector. Steve Radley, Director of Policy at the Engineering Employers Federation (EEF), said:²⁰

Industry will welcome this decision as a recognition government understands the need to underpin such a key sector, protect vital supply chains and skilled jobs.

Nissan UK's Managing Director, Paul Willcox said:²¹

We are delighted with today's announcement that the Scrappage Scheme has been extended. It has already provided a vital boost to the car industry as a whole and to UK motor manufacturing. We believe the extended scheme will continue to have a positive impact [...]

4 Effect on automotive sector

Vehicle production in the UK fell by over 50% in early 2009 compared with the same period a year ago. Since the introduction of the scrappage scheme in May 2009 the rate of decline has moderated, although production is still down compared with a year ago (see chart below).

¹⁷ Labour Party, "[Peter Mandelson's speech to the 2009 Labour Party Annual Conference](#)"

¹⁸ These changes will come into effect once formal agreement has been reached with the vehicle manufacturers.

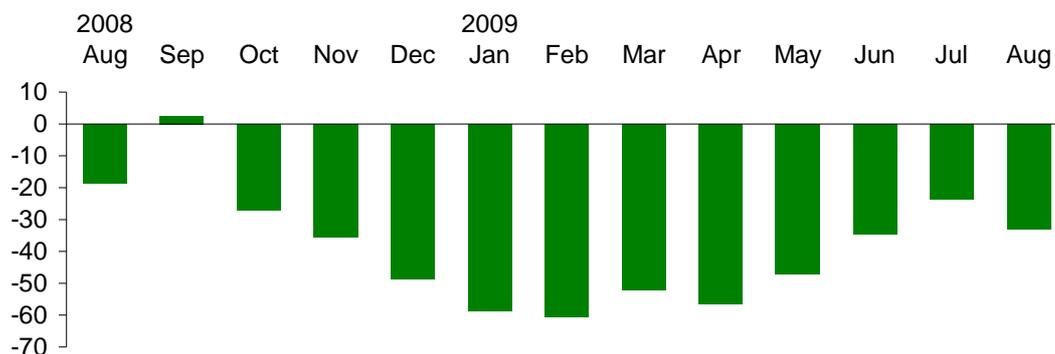
¹⁹ BIS Press Release, "[Van Man Gets Extra Boost With Government Increase In Scrappage Funds](#)", 28 Sep 2009

²⁰ EEF Press Release, "[EEF welcomes car scrappage extension](#)", 28 Sep 2009

²¹ Nissan UK Press Release, "[Scrappage Schemes Extended – By The Government And By Nissan](#)", 28 Sep 2009

UK vehicle production

% change from year ago



Source: [Society of Motor Manufacturers and Traders \(SMMT\)](#)

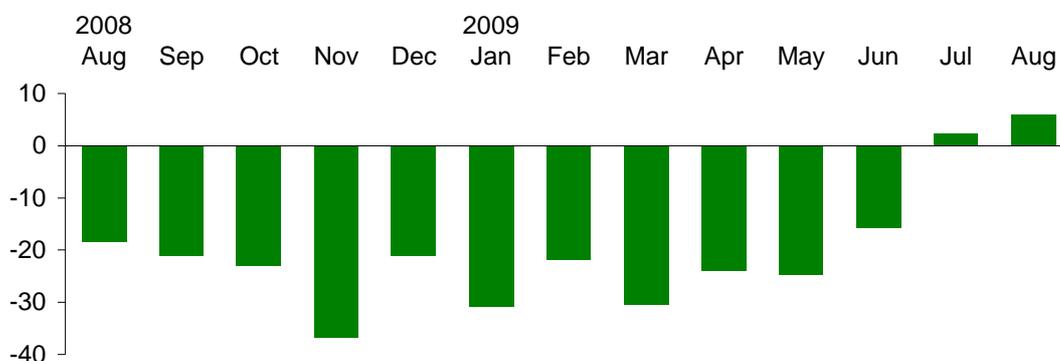
Although a large majority of cars bought in the UK are imported,²² similar scrappage schemes across Europe may have led to increased demand for vehicles produced in the UK. SMMT chief executive Paul Everitt believes this to be the case, saying:

[...] [t]he slowdown in the rate of decline of UK car production reflects the impact of the scrappage incentive schemes in place across Europe.”²³

The number of new car registrations has increased since the scheme was introduced (see chart below), with July and August 2009 both seeing increases on a year ago compared with declines of over 30% before the scrappage scheme was introduced in May 2009.

UK new car registrations

% change from year ago



Source: [Society of Motor Manufacturers and Traders \(SMMT\)](#)

The price of second-hand cars has risen during 2009, with figures from British Car Auctions (BCA) showing that used car values increased for 10 consecutive months to August 2009. During this time the average value of a used car had gone up from £4,743 in October 2008 to £6,223 in August 2009. The BCA attributed the rise to strong demand and relatively low

²² Business and Enterprise Committee, *The Automotive Industry in the UK*, 7 Jul 2009, HC 550, Q18

²³ SMMT Press Release, “[July UK vehicle production figures](#)”, 21 Aug 2009

stock levels.²⁴ Some have suggested that this increase can at least in part be attributed to the scrappage scheme as it reduced the supply of second-hand cars put up for sale.²⁵

5 Arguments against scrappage schemes

There are a number of arguments against car scrappage schemes. Some of these are listed below:

- It may only boost car sales temporarily by bringing forward future demand. When the scheme is wound up new car sales could fall, even if the economy is recovering. The *Economist* noted that: “In France, which offered a scrapping bonus in the mid-1990s, sales fell by 20% in the year after it expired.”²⁶ Oxford Economics, prior to the announcement of the UK scheme’s extension, stated that although the scrappage initiative had boosted new car sales it still forecast new car registrations to be down 13% on average in 2009, with a further fall of 8.75% expected in 2010.²⁷
- It may divert consumer spending from other sectors of the economy to new cars, as the subsidy will only cover a portion of the cost of a new car.²⁸
- The motor industry should not be singled out for specific support. Many believe the global car industry needs to reduce capacity and scrappage schemes merely delay consolidation in the industry.²⁹
- Most new cars that are bought in the UK are made abroad. Thus, a large portion of the money spent on the scheme may support carmakers based outside the UK.³⁰

The *Financial Times* in an editorial about the US scrappage scheme was critical of such initiatives:³¹

[...] There is no sound economic reason to sustain the capacity to produce cars that consumers are unwilling to pay for in full.

The *Economist* also noted that despite the short-term boost to demand that scrappage schemes have provided, there are concerns over future demand:³²

One worry is the effect of withdrawing scrappage incentives. These have propped up demand this year, especially in Germany where they drove volumes to record levels. Optimists say that at least 70% of the scrappage purchases were incremental sales made to people who would not normally have bought a new car. But car-company bosses fear that volumes in Europe could slide next year unless “normal” new car buyers—well-off people and companies—return to the market. Even if scrappage schemes are continued or tapered, there may not be many buyers left who meet the qualifications.

²⁴ British Car Auctions (BCA), *Used Car Values Keep Climbing*, 4 Sep 2009

²⁵ “Scrappage scheme: second-hand car shortage causes prices to soar”, *Daily Telegraph*, 12 Sep 2009

²⁶ “Clunky but effective”, *The Economist* online, 4 Aug 2009

²⁷ Oxford Economics, *UK Sectoral Prospects: Autumn 2009*, p28

²⁸ “Clunk-clicked”, *The Economist*, 18 Apr 2009, p39

²⁹ “Crushing problems” [leader article], *Financial Times*, 15 Apr 2009

³⁰ “Underpowered”, *The Economist*, 18 Apr 2009, p32

³¹ “New cars for old” [leader article], *Financial Times*, 4 Aug 2009

³² “Small isn't beautiful”, *The Economist*, 19 Sep 2009, p79

6 Further information

The Department for Business, Innovation and Skills (BIS) has information about the scheme, including the latest figures for the number of orders taken under it (updated weekly): <http://www.berr.gov.uk/whatwedo/sectors/automotive/scrappage/page51068.html>

BIS also has detailed information with regards to the scheme's eligibility criteria: <http://www.berr.gov.uk/whatwedo/sectors/automotive/scrappage/FAQs/page51710.html>

Directgov gives a broad overview of the scheme and how it operates: http://www.direct.gov.uk/en/Motoring/BuyingAndSellingAVehicle/AdviceOnBuyingAndSellingAVehicle/DG_177693

The Society of Motor Manufacturers and Traders publishes data on UK vehicle production and new car registrations: <http://www.smmt.co.uk/home.cfm>

The *Guardian* website has a section devoted to the automotive sector: <http://www.guardian.co.uk/business/automotive-industry>

Information on European car sales and production can be found on the European Automobile Manufacturers Association (ACEA) website: <http://www.acea.be/index.php/collection/statistics>