

# ZEV Mandate – Clarity at last or dither and delay?

With the latest chapter in the government’s consultation around the Zero Emission Vehicle mandate now published we speculate what it might mean for manufacturers, dealers and leasing sectors.

We published a summary of the updated ZEV mandate here so we won’t repeat the main takeouts, but we will examine some potential scenarios.

Total UK		1,614,063		267,196		22%	Variance
Rank	Brand	Total	Market Share %	BEV	BEV % of Sales		
1	Volkswagen	131,850	8.2%	19,552	14.8%	29,007	9,455
2	Ford	126,826	7.9%	4,502	3.5%	27,902	23,400
3	Audi	110,144	6.8%	13,379	12.1%	24,232	10,853
4	BMW	108,624	6.7%	21,481	19.8%	23,897	2,416
5	Toyota	102,181	6.3%	438	0.4%	22,480	22,042
6	Kia	100,191	6.2%	16,368	16.3%	22,042	5,674
7	Vauxhall	83,691	5.2%	11,332	13.5%	18,412	7,080
8	Mercedes Benz	80,910	5.0%	14,504	17.9%	17,800	3,296
9	Hyundai	80,419	5.0%	14,449	18.0%	17,692	3,243
10	Nissan	76,711	4.8%	10,746	14.0%	16,876	6,130
11	Tesla	54,622	3.4%	54,622	100.0%	12,017	0
12	Peugeot	52,264	3.2%	9,663	18.5%	11,498	1,835
13	MG	51,050	3.2%	16,607	32.5%	11,231	0
14	Skoda	48,848	3.0%	5,537	11.3%	10,747	5,210
15	MINI	45,854	2.8%	7,425	16.2%	10,088	2,663
16	Land Rover	43,180	2.7%	0	0.0%	9,500	9,500
17	Volvo	36,506	2.3%	4,556	12.5%	8,031	3,475
18	Renault	32,286	2.0%	7,003	21.7%	7,103	100
19	Citroen	28,487	1.8%	3,596	12.6%	6,267	2,671
20	Dacia	27,221	1.7%	0	0.0%	5,989	5,989

The table above shows regs, share and ZEV share at the end of 2022. If the ZEV mandate was applied to this data then only Tesla and MG of the Top 20 brands have surplus ZEV credits.

### Winners

Tesla registered 54,622 cars in 2022. 100% of those qualify as ZEVs. Therefore, if the 22% target had applied in 2022 they would have amassed 12,016 credits. Now as Tesla only sells EVs the only value to these credits is by selling them on the open market to another OEM who cannot achieve 22% ZEV registrations.

On the basis that fines for non-compliance are being suggested at c£15,000 for non-ZEV qualifying units then Tesla could reasonably expect to command a value for these credits >£10,000. £10k free cash to either further discount their product or take to the bottom line. That's £120m for doing nothing.

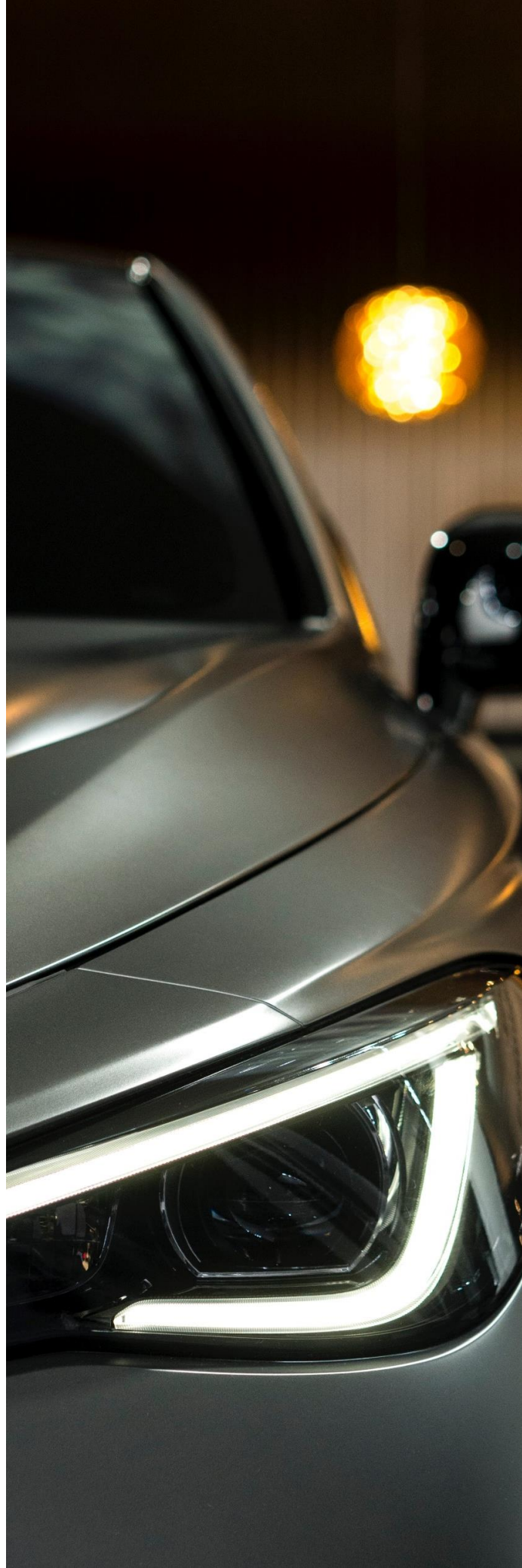
Polestar registered 7345 units last year which was a good entry into the market and with more products coming they look set to grow. They can benefit similarly to Tesla but as Polestar is owned by Geely they may elect to utilise credits to offset any target miss by sister brand Volvo. An in-house trade that helps sustain both brands competitive position.

### Losers

Ford have long been the market leader and whilst Volkswagen have recently usurped that position the blue oval has been by far the most popular brand in the UK for decades. They registered 126,826 units last year but with only Mach-E as a qualifying ZEV their percentage ZEV share is low. My understanding is that more Ford BEVs arrive in late 2023 but they are in "catch up" mode and will a huge gap to close in order to meet the 22% target in 2024. I estimate they have about a 19% gap assuming they continue to aim for an overall market share of 8%.

It's hard to see how Ford bridges that gap in 1 year so what are its options.

- 1 They can buy credits from Tesla or another OEM who has surplus. But that erodes profits and support the competition. If you were VW would you sell credits to Ford?
- 2 They can borrow credit that is repaid after the transition period of 2024-2026 but that attracts 3.5% interest penalty.
- 3 They can pay a penalty of £15k a bonnet which basically wipes out any market profitability. E.g. if the gap to 22% was 5000 units they would forego £75m.
- 4 They can reduce the volume aspirations in the UK so that ZEV qualifying sale meet the target. That would mean c23,000 less sales.



Similarly, Toyota are lagging in the BEV market. Having done an excellent job recovering the brands UK share via the hybrid products and more innovative design they now are in a weaker position than Ford. With the catchily named BZ4X being the only ZEV available and sales in 2022 largely restricted to dealer demo's they have a 22,000 unit gap to ZEV mandate target. (assuming carryover of 100k regs).

The options are the same as for Ford and anyone else with a shortfall. Mortgage the future in the hope you can catch up and haven't ceded share to the likes of MG and the other Chinese brands eyeing the market, strengthen the competition by buying credits or simply reduce your market volumes to the point where the only penalty is losing share.

This new dynamic further complicates the equation for OEMs. They still have the CAFE rules to comply with and a previous boss of mine described the addition of a Co2 factor to the historical volume/profit equation as an existential threat. Now the job of the market planners will be even more complex as they wrestle with how best to balance short term profits with potential terminal share decline.

There are no upsides for OEMs that are behind the market adoption curve on BEVs and whilst the concession to allow some flexibility during the first three years of the mandate will allow for some manoeuvring, the consequences for some OEMs and their dealers could be severe.

When it comes to being a dealer, a broker or a leasing company you are at the mercy of your OEM partners. The strategy of the likes of Waylands Group to align with OEMs who had a clear electric vehicle strategy now looks like it was particularly shrewd as the volumes and competitive positioning are more assured but no-one knows for sure what the next 3-4 years will bring other than to say – expect the unexpected and have lots of contingency plans.

If you would like to have a confidential chat, please contact us.

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