

EXPLANATORY MEMORANDUM TO THE VEHICLE EMISSIONS TRADING SCHEMES (AMENDMENT) (NO.2) ORDER 2025

This Explanatory Memorandum has been prepared by the Transport and Digital Connectivity Department and is laid before Senedd Cymru in conjunction with the above subordinate legislation and in accordance with Standing Order 27.1.

Cabinet Secretary's Declaration

In my view, this Explanatory Memorandum gives a fair and reasonable view of the expected impact of The Vehicle Emissions Trading Schemes (Amendment) (No. 2) Order 2025. I am satisfied that the benefits justify the likely costs.

Ken Skates MS

Cabinet Secretary for Transport and North Wales

17 October 2025

PART 1

1. Description

- 1.1 The Vehicle Emissions Trading Schemes (Amendment) (No.2) Order 2025 (“this instrument”) amends the Vehicle Emissions Trading Schemes Order 2023 (“the VETS Order”). It introduces additional regulatory measures to support manufacturers.
- 1.2 The VETS Order consists of four trading schemes that implement a zero-emission vehicle (ZEV) mandate and a carbon dioxide (CO₂) standard for new cars and vans registered in the UK. To meet the targets set out in the trading schemes, manufacturers are given flexible routes for compliance, such as borrowing allowances from future years, converting allowances between the trading schemes, and the ability to earn bonus credits.
- 1.3 This instrument extends existing flexibilities and introduces new flexibilities to provide manufacturers with further routes to compliance. It also reduces compliance payments, implements technical changes to assist manufacturers with the treatment of plug-in hybrid vehicles and makes some small technical amendments.

2. Matters of special interest to the Legislation, Justice and Constitution Committee

- 2.1 Part 3 of Schedule 3 to the Climate Change Act 2008 (CCA) states that an emissions trading scheme that applies to England, Scotland, Wales and Northern Ireland must be established by Order in Council. The appropriate procedure for an Order in Council is prescribed by section 48 to the CCA. As this instrument is not providing for any of the matters set out in section 48(3) of the CCA, it is subject to the negative procedure by virtue of section 48(5).
- 2.2 As this instrument will be subject to UK, Scottish and Northern Irish Parliamentary scrutiny, it is not considered reasonably practicable for this instrument to be made or laid bilingually.
- 2.3 Alongside the consultation, the UK Government and Devolved Governments jointly commissioned the Climate Change Committee (“CCC”) for advice on this instrument in accordance with section 48 of the Climate Change Act 2008. This advice was published by the CCC on their website. [Letter: CCC response to Secretary of State for Transport on the VETS Order - Climate Change Committee](#)

3. Legislative background

- 3.1 The power to make an instrument to put in place a trading scheme relating to greenhouse gas emissions in section 44 of the Climate Change Act 2008 (“CCA”) is exercisable by “the relevant national authority” (the Secretary of State, the Scottish Ministers, the Welsh Ministers, the Department of

Agriculture, Environment and Rural Affairs in Northern Ireland),¹ in relation to matters within their legislative competence. This instrument relates to climate policy and is therefore devolved.

3.2 The Westminster and Devolved Parliamentary procedures for making a UK wide trading scheme are set out in Schedule 3 to the CCA. Paragraph 9 of that Schedule enables such a scheme to be established by Order in Council.

3.3 This instrument amends the VETS Order using powers under sections 44 and 90(3)(a) and (b) of, and Parts 1 and 3 of Schedule 2 and paragraph 9 of Schedule 3 to, the CCA.

3.4 Paragraph 9 of Schedule 3 to the CCA provides the monarch with the power to make provision about trading schemes by Order in Council. That power may only be exercised where provision in the Order applies or extends to Scotland and other UK nations.

3.5 In accordance with section 48(5) and paragraph 12 of Schedule 3 to the CCA, this instrument is required to be laid in the Northern Ireland Assembly, the Scottish Parliament, Senedd Cymru, and the UK Parliament. If any one of the administrations object to this instrument, it could be annulled, meaning that nothing further can be done under it and the King may revoke it.

4. Purpose and intended effect of the legislation

4.1 In March 2021 the Senedd established Wales's statutory target of net zero greenhouse gas emissions in 2050.² Net Zero Wales: Carbon Budget 2, published in October 2021 illustrates the importance of reducing emissions from transport in Wales as part of this ambition and the Welsh

¹ The definition of relevant national authority is set out at section 47 of the CCA 2008.

- The Scottish Ministers are the relevant national authority in relation to matters within the legislative competence of the Scottish Parliament.
- The Welsh Ministers are the relevant national authority in relation to matters that— (a) are within the legislative competence of the National Assembly for Wales, or (b) relate to limiting or encouraging the limitation of activities in Wales that consist of the emission of greenhouse gas, other than activities in connection with offshore oil and gas exploration and exploitation.
- The Secretary of State or the relevant Northern Ireland department is the relevant authority in relation to reserved matters within the meaning of the Northern Ireland Act 1998.
- The relevant Northern Ireland department is the relevant authority in relation to all other matters within the legislative competence of the Northern Ireland Assembly.
- The Secretary of State is the relevant national authority in relation to all other matters.

² [The Environment \(Wales\) Act 2016 \(Amendment of 2050 Emissions Target\) Regulations 2021](#)

Government's support for stretching targets for the uptake of electric vehicles.³

4.2 The VETS Order has been in force since 1 January 2024 and implements the ZEV mandates and the CO2 standard.

4.3 The ZEV mandate consists of two trading schemes:

- the Non-Zero-Emission Car Registration Trading Scheme (CRTS)
- the Non-Zero-Emission Van Registration Trading Scheme (VRTS).

4.4 The CO2 standard consists of two trading schemes:

- the Non-Zero-Emission Car CO2 Trading Scheme (CCTS)
- the Non-Zero-Emission Van CO2 Trading Scheme (VCTS).

4.5 The ZEV mandate (CRTS and VRTS) sets vehicle manufacturers' annual targets for the proportion of new zero-emission cars and vans registered in the UK. The CRTS and VRTS ZEV targets start at 22% for cars and 10% for vans in 2024, rising steadily to 80% of cars and 70% of vans by 2030, on a pathway to 100% by 2035.

4.6 Within the VETS Order, the CRTS and VRTS targets are expressed as percentage targets for the proportion of vehicles in a manufacturer's fleet that may be non-ZEV (i.e. petrol/ diesel/hybrid/plug-in hybrid electric). These percentage targets are the inverse of the ZEV target – in 2024, the ZEV target was 22%, so manufacturer fleets were permitted to be up to 78% non-ZEV. These targets are enforced by allocating manufacturers with 'allowances' equal to the non-ZEV level as a proportion of their overall vehicle sales, and requiring vehicle manufacturers to surrender an allowance for every new non-ZEV vehicle registered in a calendar year.

4.7 The CO2 standard (CCTS and VCTS) sets CO2 baseline targets for vehicle manufacturers to ensure that their fleet-wide non-ZEV CO2 emissions do not exceed 2021 levels. The CCTS and VCTS targets are enforced by requiring vehicle manufacturers to surrender one allowance per 1gCO2/km emitted by their new non-ZEV vehicles registered in a calendar year. As with the ZEV mandate, manufacturers are allocated allowances equal to their 2021 emissions baseline, multiplied by the number non-ZEVs that they register in each calendar year.

4.8 Manufacturers that overachieve against their targets will therefore have spare allowances at the end of each calendar year. They are free to sell (i.e. trade) those allowances to manufacturers, including manufacturers that have not complied with the requirements thus allowing those manufacturers to comply through the purchase of allowances. For example, manufacturers that over-comply with the VRTS target will have excess VRTS allowances.

³ Net Zero Wales: Carbon Budget 2

These excess VRTS allowances can be traded/sold to other manufacturers, including those that have not met their VRTS targets.

- 4.9 Manufacturers may also use other flexibilities to support their routes to compliance.
- 4.10 These flexibilities include, but are not limited to:
- 4.11 Banking: Manufacturers that overcomply with the CRTS or VRTS targets in one year will have excess allowances. These excess allowances can be banked for use against future CRTS and VRTS targets for up to three years.
- 4.12 Borrowing: Manufacturers that do not meet their CRTS or VRTS targets in one year will be in a deficit of allowances. Manufacturers can borrow this deficit in allowances from their future years' allocation of CRTS / VRTS allowances, subject to a yearly cap. Manufacturers must pay back the borrowed CRTS / VRTS allowances at a yearly compounding interest rate of 3.5%.
- 4.13 Conversion: Manufacturers that over-comply with the targets from the CRTS or VRTS will have excess CRTS / VRTS allowances. These excess CRTS / VRTS allowances can be converted for use against CCTS / VCTS targets. Conversely, manufacturers that overcomply with the CCTS / VCTS targets will have excess VCTS / CCTS allowances; these too can be converted for use against the CRTS / VRTS targets, subject to an annual cap.
- 4.14 A manufacturer that does not meet their targets, whether through vehicle registrations, trading or use of flexibilities, would then be required to make a compliance payment.
- 4.15 With regard to the borrowing and CO₂-to-ZEV conversion flexibilities, these were originally designed to only be available from 2024-2026, and were subject to stringent caps and eligibility criteria. This was to provide manufacturers with a transitional period to adapt to new requirements when the regulation was introduced, and in recognition of the fact that manufacturers may have had product plans that were already in place during the implementation of the original regulation.
- 4.16 In recognition of the global challenges faced by the automotive industry in recent years, the UK government and devolved governments launched a consultation to review the design of the flexibilities (see section 5 below)
- 4.17 This instrument amends the VETS Order. It extends existing flexibilities and introduces new flexibilities to provide manufacturers with further routes to compliance. It also reduces compliance payments, implements technical

changes to assist manufacturers with the treatment of plug-in hybrid vehicles and makes some small technical amendments

5. Consultation

- 5.1 On 24 December 2024, the UK Government, the Department for Infrastructure (Northern Ireland), the Welsh Government and the Scottish Government launched a public consultation seeking views on measures to support the transition to zero-emission cars and vans. A series of workshops was also delivered to industry stakeholders.
- 5.2 The consultation closed on 18 February 2025 and received over 600 responses from a range of stakeholders including vehicle manufacturers, charge point operators, and non-government organisations.
- 5.3 On 7 April 2025, the joint government response to the consultation was published⁴. It committed to extending existing flexibilities and creating new flexibilities to address manufacturers' concerns, whilst also maintaining wider climate ambitions.
- 5.4 On 10 July 2025, the UK Government's Department for Transport and the Devolved Governments held a further workshop with industry to explore the detailed legislative implementation of these commitments. On 16 July, the Department sent out a technical consultation document (with the written proposals from the workshop) to provide stakeholders with the opportunity to provide formal views on the technical legislative implementation of the amendments that were announced on 7 April 2025.
- 5.5 The technical consultation closed on 7 August 2025 and received 9 written responses: 8 from vehicle manufacturers and one from a trade body. Almost all respondents agreed with the proposed technical implementation.
- 5.6 Alongside the consultation, the UK Government and Devolved Governments jointly commissioned the Committee on Climate Change ("CCC") for advice on this instrument in accordance with section 48 of the Climate Change Act 2008. The CCC issued this advice on 29 September 2025 and published it on its website⁵.

⁴ <https://www.gov.uk/government/consultations/phasing-out-sales-of-new-petrol-and-diesel-cars-from-2030-and-supporting-the-zev-transition/outcome/phasing-out-sales-of-new-petrol-and-diesel-cars-from-2030-and-supporting-the-zev-transition-summary-of-responses-and-joint-government-response>

⁵ <https://www.theccc.org.uk/publication/letter-ccc-response-to-secretary-of-state-for-transport-vets-order/>

6. PART 2 – REGULATORY IMPACT ASSESSMENT

- 6.1 This RIA summarises the key points set out in the ‘Zero Emission Vehicle Mandate and CO2 Regulations – Vehicle Emissions Trading Schemes Update Cost Benefit Analysis’ produced by the UK Department for Transport and which is published alongside its explanatory memorandum on the [legislation.gov.uk](https://www.legislation.gov.uk) website.
- 6.2 Additionally, it includes an apportionment of the likely main impacts of the proposed legislation in Wales.

Assessment of impacts

Scenarios

- 6.3 Three core scenarios are described in the UK analysis and used to appraise the impacts.
- 6.4 Each scenario is compared against its own counterfactual, where the **assumption on compliance strategy**, and **non-ZEV emissions** are the same as the tested scenario, but the policy environment is the same as in the baseline. Where ‘Baseline’ is shown and not otherwise specified, this assumes currently legislated VETS with the central assumptions on non-ZEV emissions and VETS compliance.
- 6.5 The four scenarios are as set out in Table 1.

Scenario	Policy Assessed	Assumption on non-ZEV emissions	Assumption on VETS compliance
Baseline(s)	Currently legislated VETS	As per each tested scenario.	
Central	VETS with changes as described in Part 2 of the consultation response ⁴	As observed in 2024.	Compliance in future years met primarily through ZEV sales supplemented by CO ₂ transfers.
Low ZEV	VETS with changes as described in Part 2 of the consultation response ⁴	Reducing through greater PHEV sales.	Compliance in future years met primarily through ZEV sales supplemented by CO ₂ transfers, at a greater level than in the central scenario.

High ZEV	VETS with changes as described in Part 2 of the consultation response ⁴	Emissions return to baseline values in 2025	Compliance is achieved by meeting ZEV targets in full.
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Table 1 Scenarios analysed

6.6 The Low ZEV scenario does not assume the maximum use of the flexibilities proposed, as evidence of manufacturer plans do not appear to be consistent with such a strategy. The magnitude of this scenario is guided by outturn data and industry forecasts on PHEV sales.

6.7 The High ZEV scenario is included to represent a position whereby the additional flexibilities are not used whatsoever, thus there are no impacts from changes to these flexibilities.

6.8 The UK CBA assesses impacts by change in policy area;

- Extension of existing borrowing mechanisms and adjustments to caps
- Extend time limits and modify caps applied to CO₂ to ZEV transfers for cars and vans
- Enable transfers between car and van credit schemes; and
- Disapplication of any updates to Plug-in Hybrid Electric Vehicle (PHEV) utility factors associated with the adoption of Euro 6e regulation for GB type approval

Change in ZEV sales share

6.9 The Central forecast of ZEV sales is very similar to the baseline until 2027, but after 2027 there is a reduced level of ZEV sales as the flexibilities now continue for longer. Before 2027, there is a limited change in ZEV sales as a result of the relaxation of caps on CO₂ transfers in 2025 and 2026.

Change in non-ZEV efficiencies

6.10 In the baseline scenario, it is assumed that manufacturers maintain their 2024 non-ZEV efficiencies until the flexibilities end. It is assumed that manufacturers would return their average non-ZEV sales efficiency to their individual baseline value to minimise the cost of compliance. This, on average, is slightly above 2021 outturn emissions levels.

6.11 In the Central scenario, manufacturers maintain more efficient non-ZEV vehicles until 2030, to benefit from extended flexibilities.

- 6.12 In the low scenario, manufacturers are assumed to make further reductions in the emissions of non-ZEV cars and use this to reduce the number of ZEVs they must sell to meet the ZEV mandate.
- 6.13 In the high scenario, manufacturers are assumed to meet the ZEV target and therefore do not need to use the CO₂ transfer flexibility. Therefore, their non-ZEV efficiencies match their individual baseline from 2025.
- 6.14 By 2029, in the Central scenario, non-ZEV cars would be roughly 0.1% more efficient, on average, compared to 2024. In the Low ZEV scenario, they would be roughly 6% more efficient on average.

Change in carbon emissions

- 6.15 In summary, the UK Government's Cost Benefit Analysis concludes that carbon emissions are increased overall as a result of adopting greater flexibilities because the increase in emissions from fewer ZEVs being sold is more than the reduction in emissions from cleaner non-ZEV vehicles.
- 6.16 The Cost Benefit Analysis considers three different scenarios. In the Central scenario, it is estimated that the reduction in carbon savings associated with these changes is equivalent to less than 2% of those analysed in the original VETS order cost benefit analysis, between 2025 and 2050.

Change in UK total carbon emissions (MtCO_{2e}), by mode from 2025 to 2050

		2025-2050 (total)
Central	Car	5.6
	Van	1.8
	Total	7.5
Low	Car	10.5
	Van	1.7
	Total	12.3
High	Car	0
	Van	0
	Total	0

Change in Wales Total Carbon Emissions

6.17 To estimate carbon savings to Wales, road traffic projections have been used from the National Transport Model (National Road Traffic Projections 22)⁶. From this, Wales' traffic demand is estimated at 5.6% of UK traffic demand. This proportion has then been multiplied by the Change in UK total carbon emissions.

6.18 For the Central Scenario, described above, the Wales impact is calculated as an **increase of 0.69 MtCO₂e** over the period 2025 to 2050.

6.19 This compares with the overall impact of the VETS schemes in Wales showing a **decrease of 22.89 MtCO₂e between 2024 – 2050**.

Net Present Value

6.20 In addition to carbon emissions, the cost-benefit analysis also assessed the impact of the proposed policy changes on vehicle purchase and operating costs, charging infrastructure requirements, air pollutants, traffic disamenity, administrative costs and indirect taxation.

6.21 Overall, the UK Net Present Value is estimated at **-£173m**, a net cost to society.

6.22 This is an expected outcome, given that the original cost benefit analysis indicated the policy would deliver benefits in the region of **£39bn**. As noted earlier, this shows that a significant majority of the benefits of the policy are secured under the changes to the scheme.

Uncertainty in NPV

6.23 Under the low scenario, the NPV associated with the amendments is - **£1,366m**.

6.24 Under the high scenario, the NPV associated with these amendments is **£0m**.

Wales NPV

6.25 A detailed apportionment of the cost and benefits to Wales has not been undertaken due to the complexity of the task. Some of the costs e.g. government administration costs don't apply to Wales. It is reasonable to conclude that the costs and benefits will not be dissimilar to the Wales' share of GB population, 4.78% (2021 Census data). Using this calculation, the Net Present Value to Wales would be **-£8.3m**.

⁶ [National road traffic projections - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

Conclusion

- 6.26 The response to the consultation highlighted that continued global challenges to costs of production and consumption has meant that EV costs have not fallen as fast as originally expected, whilst electricity prices rose substantially. Both factors may have contributed to weaker than expected consumer demand for vehicles.
- 6.27 Whilst the flexibilities introduced result in a negative Net Present Value, they are considered pragmatic and justifiable given the pressures felt by domestic manufacturing and given that the VETS schemes remain ambitious on global comparison.