

# CONSULTATION RESPONSE

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## DEPARTMENT FOR TRANSPORT: ENDING THE SALE OF NEW PETROL, DIESEL AND HYBRID CARS

July 2020

## ABOUT THE PRI

The Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI is now a not-for-profit company with over 3,000 signatories (pension funds, insurers, investment managers and service providers) to the PRI's six principles with approximately US \$90 trillion in assets under management. 461 of these signatories, representing \$9 trillion, are based in the United Kingdom.

The PRI supports its international network of signatories in implementing the Principles. As long-term investors acting in the best interests of their beneficiaries and clients, our signatories work to understand the contribution that environmental, social and governance (ESG) factors make to investment performance, the role that investment plays in broader financial markets and the impact that those investments have on the environment and society as a whole.

The PRI works to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

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## SUMMARY OF THE PRI'S POSITION

The PRI welcomes the increased attention paid by the government to alignment with a trajectory of net zero emissions by 2050. Investors are increasingly cognisant of an Inevitable Policy Response<sup>1</sup> to the threat from climate change; the question for investors now is not *if* governments will act, but *when* they will do so, *what* policies they will use and *where* the impact will be felt. PRI's policy forecasts highlight the high cost of delays to action, which would lead to abrupt, disorderly and disruptive policy change.

As road transport is one of the most significant sources of emissions for the UK, the phase-out of petrol, diesel and hybrid vehicles must be a priority focus area.<sup>2</sup> The PRI supports bringing the proposed sales ban date forward and implementing a package of policy measures which will accelerate the growth in sustainable vehicle sales in the UK while reducing the number of vehicles on our roads overall.

The PRI recommends:

1. **The sales ban be brought forward to 2032.** The PRI supports the recommendations of the Committee on Climate Change, which in their recent Progress Report recommended bringing this date forward to 2032.
2. **Put in place measures to ensure a smooth uptake of zero-emissions vehicles.** The Road to Zero strategy should be revised to include targets to sell a progressively increasing number of electric vehicles as a proportion of overall vehicles sales, to reach 100% by 2032. This should be accompanied by the continuation of grants and subsidies to incentivise ZEV uptake.
3. **Greater investment in charging infrastructure.** Consumers need confidence that they will be able to recharge at home and when undertaking long journeys.
4. **Incentivise alternatives to car ownership.** A like-for-like switch from traditional vehicles to EVs is not desirable. EV production is more carbon-intensive than traditional vehicles, it is only over the course of the vehicle's life usage that it becomes more sustainable. Car sharing and other alternatives can reduce consumer costs and improve quality of life.
5. **Set out a strategy for a just transition.** The Transport Decarbonisation Plan should set out how autoworkers and related service providers will be protected, give details of retraining to be provided, and tackle the affordability of EVs for low-income groups.
6. **Require respect for human rights.** Scaling up the production of EVs will require an increased reliance on global supply chains; EVs sold in the UK should be subject to due diligence requirements to ensure increased UK demand for certain materials does not contribute to human rights abuses.

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<sup>1</sup> <https://www.unpri.org/inevitable-policy-response/what-is-the-inevitable-policy-response/4787.article>

<sup>2</sup> <https://www.unpri.org/sustainable-markets/briefings-and-consultations#net-zero>

## DETAILED RESPONSE

### 1. PHASE-OUT DATE

The PRI supports the Committee on Climate Change's (CCC) recommendation to bring forward the proposed sales ban to 2032 at the latest.<sup>3</sup>

The transition from petrol, diesel and hybrid vehicles to electric vehicles is an opportunity for both UK industry and consumers. By setting an early date for 100% of new car and van sales to be zero emissions, the UK can position itself to take advantage of the enormous future global demand for electric and zero emissions vehicles (EVs and ZEVs).

There are several advantages to the UK to an earlier phase-out date, including:

- It will boost demand for ZEVs in the short- to medium-term. A more distant date may not figure into consumers' decision-making today, as reflected in the low proportion of EVs in new vehicle sales currently.
- It will allow UK businesses to capture a significant share of a growing market. Vivid Economics has previously estimated that a 2030 phase-out could allow the UK to become the dominant location of EV sales in Europe, increasing UK sales of EVs from 21% of European sales today to more than 47% in 2030, while a 2040 phase-out could set UK sales at 36%.<sup>4</sup>
- Second hand EVs, given their lower running and maintenance costs, would save consumers money compared with their non-electric counterparts.<sup>5</sup> As lower-income households are much more likely to purchase second-hand vehicles, boosting demand for EVs today will pass savings onto such households sooner.
- It will improve air pollution levels sooner, which disproportionately affect low-income communities.<sup>6</sup>
- In advance of next year's climate summit, COP26, to be hosted in Glasgow, it will communicate the seriousness of the UK's climate commitments and encourage similar ambition from other countries.
- Phasing out petrol, diesel and hybrid vehicles by the earliest practicable date is consistent with the UK parliament's declaration of a climate emergency in May 2019.

As with the UK's net zero by 2050 commitment, in order for it to be meaningful the sales ban date itself must be backed up by the appropriate policies to support an effective transition. An enabling policy environment can ensure that the transition to electric vehicles is as soon and smooth as possible.

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<sup>3</sup> <https://www.theccc.org.uk/publication/reducing-uk-emissions-2020-progress-report-to-parliament/>

<sup>4</sup> Vivid Economics (2018), "Accelerating the EV transition. Part 1: environmental and economic impacts"

<sup>5</sup> [https://www.green-alliance.org.uk/going\\_electric\\_how\\_everyone\\_can\\_benefit\\_sooner.php](https://www.green-alliance.org.uk/going_electric_how_everyone_can_benefit_sooner.php)

<sup>6</sup> <https://www.gov.uk/government/publications/health-matters-air-pollution/health-matters-air-pollution>

## 2. INCREASING UPTAKE OF ZERO EMISSIONS VEHICLES

A comprehensive strategy is needed to ensure a steady increase in the proportion of zero emissions vehicles (ZEVs) that are produced and sold in the UK between now and 2032.

In 2019 just 3.5% of new car sales were ZEVs.<sup>7</sup> A car market where the sales ban on ICE vehicles is put in place abruptly could potentially have negative consequences for the wider economy, and thus a clear timeline is needed for steady but accelerated uptake of ZEVs.

As an initial step, the government's Road to Zero strategy should be amended to include more granular interim ZEV penetration targets; for example a minimum of 25% of new car sales in 2025 to be ZEVs. Achieving these interim targets will require a commensurate package of policy provisions to be put in place.

One measure that has been proposed has been the introduction of a ZEV mandate requiring manufacturers to sell a minimum number of ZEVs each year, possibly coupled with a ZEV credits trading system.<sup>8</sup> Such a proposal would give automakers the long-term certainty needed to encourage investment in manufacturing in the UK.

Such supply-side measures need to be paired with demand-side incentives. Despite cost decreases, ensuring that the ZEV market scales up sufficiently quickly in the UK will require continued public investment in the short term directed to schemes such as the Plug-in Grant, while phasing out any remaining subsidies from which traditional vehicles and their energy sources benefit.<sup>9</sup>

Consumers currently pay an up-front premium for EVs, discouraging uptake and privileging co-benefits of EV ownership such as lower running costs and health benefits to more affluent consumers and communities. Rebalancing demand-side incentives so that ZEVs are affordable to populations across the UK is consistent with the government's net zero commitment and levelling up agenda. Public support should last until electric vehicles reach cost parity with conventional vehicles later in the 2020s.

## 3. INVESTING IN CHARGING INFRASTRUCTURE

The uptake of EVs further requires the timely rollout of enabling infrastructure, which must be supported by adequate Government schemes and incentives alongside private investment.

Publicly financed grant schemes for EV infrastructure particularly benefit remote areas with lower private investment. Charging and refuelling infrastructure will require over £1 bn of investment per year to 2030.<sup>10</sup> Public grants and funding will be needed for charging stations in remote and sparsely

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<sup>7</sup> European Alternative Fuels Observatory (EAFO). [www.eafo.eu](http://www.eafo.eu)

<sup>8</sup> <https://policyexchange.org.uk/publication/route-35/>

<sup>9</sup> [https://stats.oecd.org/Index.aspx?DataSetCode=FFS\\_GBR](https://stats.oecd.org/Index.aspx?DataSetCode=FFS_GBR)

<sup>10</sup> Vivid Economics (2020), Achieving Net Zero GHG Emissions in the UK

populated regions. Local solutions will be key to achieve a widespread presence of EV infrastructure on the ground.

Private agents can support the transition to low-carbon transport through investment in vehicle producers and infrastructure funds. The Charging Infrastructure Investment Fund is a positive example of unlocking private finance to develop the UK's charging infrastructure; further use of such vehicles is needed to channel investment towards infrastructure and promising ZEV technologies.

#### 4. ALTERNATIVES TO CAR OWNERSHIP

Even as the UK seeks to transition towards EVs and ZEVs, it must avoid attempting a one-for-one substitution of traditional vehicles for ZEVs, given the latter's carbon footprint. Rather, public transport should be a viable option across all regions of the UK, and other alternatives to car ownership should be incentivised.

EVs generate more greenhouse gas emissions than traditional vehicles during the production process, and it is only after several years of use that emission savings are made. Thus it would be some time before emissions reductions related to the transition to EVs would be realised. The UK has also seen a steady, long-term increase in the number of vehicles owned per household which, were it to continue, would further undercut the emissions reductions realisable from a transition to EVs.<sup>11</sup> Replicating current levels of car ownership would also place a strain on the supply chains of necessary minerals and metals for EV battery production.<sup>12</sup>

The average car in the UK is parked 96% of the time<sup>13</sup>; thus cars are highly suited to shared ownership models, and many residents will find public transport a preferable alternative when it is a viable option. The PRI thus supports the view of the Commons Science and Technology Select Committee:<sup>14</sup>

“In the long-term, widespread personal vehicle ownership does not appear to be compatible with significant decarbonisation. The Government should not aim to achieve emissions reductions simply by replacing existing vehicles with lower-emissions versions. Alongside the Government's existing targets and policies, it must develop a strategy to stimulate a low-emissions transport system, with the metrics and targets to match. This should aim to reduce the number of vehicles required, for example by: promoting and improving public transport; reducing its cost relative to private transport; encouraging vehicle usership in place of ownership; and encouraging and supporting increased levels of walking and cycling.”

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<sup>11</sup> <https://academic.oup.com/cje/article/44/4/953/5859377>

<sup>12</sup> <https://www.thetimes.co.uk/article/britain-could-be-held-to-ransom-over-electric-cars-5zzjdh97l>

<sup>13</sup> <http://www.racfoundation.org/research/mobility/spaced-out-perspectives-on-parking>

<sup>14</sup> <https://publications.parliament.uk/pa/cm201719/cmselect/cmsctech/1454/145408.htm>

Reducing the number of cars on the road would bring a number of co-benefits, including improving the walkability of towns and cities, freeing up land dedicated to car parking for other purposes, reduced congestion and time wastage, and savings for households.

## 5. SECURING A JUST TRANSITION

A just transition should be a core component of the switch to ZEVs and the Transport Decarbonisation Plan. The government must set out how autoworkers and related service providers will be supported through the phase-out of traditional vehicles while also setting out how low-income households will have adequate transport options available to them.

Broadly, the transition to a climate neutral economy poses three types of challenges in terms of potential negative socioeconomic impacts: the impacts on workers in sectors affected by changes related to the decarbonisation agenda; the impacts on communities who heavily rely on sectors affected by the decarbonisation agenda for their livelihoods and the impacts on communities who live close to new renewable energy projects; lastly the access to affordable energy, transport and other essential services.

There are a number of potential socioeconomic risks attached to the phase-out of diesel, petrol and hybrid vehicles that must be addressed, including:

- **Skills:** In 2018, as many as 97% of the UK's mechanics were not qualified to work on electric vehicles.<sup>15</sup> Without retraining programmes, several individuals and small businesses will be threatened by a reduction in maintenance work on traditional vehicles.
- **Inequality:** The up-front cost of an EV can be prohibitive for low-income groups, even where the overall cost over the products lifecycle is lower. This can exacerbate inequality.
- **Air pollution:** Due to the current lack of affordable EVs for low-income groups, there is a risk that these groups will continue to be exposed to higher levels of air pollution caused by traditional vehicles, which damage child development, can cause cancer and damage social mobility. Even today, air pollution tends to be concentrated in areas with the lowest household income.<sup>16</sup>

Securing a just transition for workers and communities should be integrated into the government's strategy to phase-out diesel, petrol and hybrid vehicles.

## 6. MITIGATING SUPPLY CHAIN RISKS

A greater reliance on EVs will entail a greater reliance on global supply chains exposed to human rights risks. The UK should require automakers to undertake due diligence to ensure no human rights violations occur in the sourcing of relevant materials and produce guidance to assist companies in identifying, mitigating and reporting on human rights risks, and providing remedy where necessary.

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<sup>15</sup> Data from Institute of the Motor Industry (2018).

<sup>16</sup> See note 3 above.

Though both traditional and electric vehicles rely on a range of materials which raise human rights concerns, the mining of cobalt for lithium-ion batteries is an area of particular concern. Cobalt mining has a high human toll. While it is not a conflict mineral, as it is produced in the relatively peaceful southern province of Katanga, the Democratic Republic of the Congo as a whole is a high-risk area, where up to 20% of the country's cobalt is extracted by artisanal miners.<sup>17</sup> Serious, systemic human rights violations are commonplace, including child labour, exposure to health hazards from high levels of toxic metals, and lack of the most basic safety equipment inside and around the mines. The growing demand for the mineral is also fuelling an increase in price that could have disruptive effects on local communities.<sup>18</sup>

In seeking to mitigate an environmental problem it is important that the UK does not exacerbate a social one. The PRI supports implementation of mandatory human rights due diligence for vehicles sold in the UK. The OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights should be used as the basis for this implementation.

Introducing due diligence requirements from the beginning will ensure that EV supply chains are built on a foundation of respect for human rights, rather than trying to retrofit this approach at a later date. It will also improve the appeal of UK-manufactured EVs to a market that is increasingly prepared to pay a premium for products that are both environmentally and socially sustainable. It will also ensure that the UK does not fall behind as other countries are preparing to introduce their own corporate human rights due diligence processes.<sup>19</sup>

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<sup>17</sup> The DRC is home to over half of the world's cobalt.

<sup>18</sup> <https://www.unpri.org/social-issues/how-investors-can-promote-responsible-cobalt-sourcing-practices/2975.article>

<sup>19</sup> For example, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/603495/EXPO\\_BRI\(2020\)603495\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/603495/EXPO_BRI(2020)603495_EN.pdf)