POLICY NOTE

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

SI 2025/1101

The above instrument amends the Vehicle Emissions Trading Schemes Order 2023 (VETS 2023 Order) which was made in exercise of the powers conferred by sections 44, 46(3), 54 and 90(3) of, and Parts 1 and 3 of Schedule 2 and paragraph 9 of Schedule 3 to, the Climate Change Act 2008. The instrument is subject to the negative procedure.

The VETS 2023 Order created Great Britain-wide trading schemes under Schedule 3 of the Climate Change Act 2008. Paragraph 9 of that Schedule enables such a scheme to be established by Order in Council. Pursuant to paragraph 11 of Schedule 3, before a recommendation was made to His Majesty in Council to make the Order in Council, a draft of the instrument containing the Order in Council was approved by a resolution of each UK House of Parliament, the Scottish Parliament and Welsh Senedd.

Following a consultation announced in December 2024, a joint government position was published in April 2025 detailing additional flexibilities to be introduced to the VETS legislation. The current instrument is a UK-wide instrument prepared by the Scottish, UK, Welsh and Northern Irish governments to amend the VETS Order 2023 to provide such flexibilities in the VETS scheme.

Summary Box

The VETS (Amendment) No.2 Order 2025 introduces additional regulatory measures to support manufacturers.

The 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.

Policy Background and Context

The Scottish Government declared a Global Climate Emergency in April 2019 and announced that Scotland will be carbon neutral by 2040 and will emit net-zero emissions by 2045. The Scottish Government's Climate Change Plan update (Climate Change Plan update), published in December 2020, set out the pathway to meet Scotland's statutory greenhouse gas emission reduction targets by 2032.

With the transport sector being the largest emitter of greenhouse gases in Scotland, accounting for 29% of all emissions in 2019, and road transport making up the majority of those emissions at 66% (Scottish Greenhouse Gas Statistics), the Scottish Government has committed to decarbonising transport in Scotland. Scotland's ambitious climate change legislation sets a target date for net zero emissions of all greenhouse gases by 2045, with interim targets of 75% by 2030 and 90% by 2040. In line with this, the National Transport

Strategy 2 sets out the strategic vision for Scotland's transport system and the national Mission Zero for transport aims to ensure people and places benefit fairly from the shift to sustainable, zero emission mobility. This underlines our ambition to deliver a healthier, cleaner and greener Scotland for current and future generations.

The Scottish Government commitment is to phase out the need for new petrol and diesel cars and vans by 2030, with an increasing uptake of zero emission vehicles in the period up to 2030 essential to help to meet that goal.

The objective of the VETS Order 2023 is to introduce yearly mandated sales targets for new zero emission cars and vans for vehicle manufacturers to meet, ramping up to 80% of new cars and 70% of new vans by 2030 The Order also introduced non-zero emissions vehicle (non-ZEV) CO2 emissions regulations for all new non-ZEV cars and vans sold.

The VETS Order 2023 created four schemes; two of the schemes are intended to limit the numbers of new non-zero emission cars and vans that may be registered in the UK, while the other two schemes are intended to limit CO2 emissions from non-zero emission cars and vans registered in the UK.

Policy Objectives

What is being done and why

1.1 Under the Climate Change Act 2008, the UK Government is legally committed to reach net zero greenhouse gas emissions by 2050.

1.2 Since 2019, the transport sector has accounted for the largest share of the UK's annual domestic greenhouse gas emissions. Most of these emissions have come from petrol and diesel road vehicles[1]. The VETS Order 2023 is a crucial lever to remove exhaust emissions from new cars and vans sold in the UK.

1.3 The VETS Order 2023 has been in force since 3 January 2024 and implements the ZEV mandates and the CO_2 standards.

1.4 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).

1.5 The CO_2 standard consists of two trading schemes:

the Non-Zero-Emission Car CO_2 Trading Scheme (CCTS)

the Non-Zero-Emission Van CO_2 Trading Scheme (VCTS).

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.

Within the legislation, the CRTS and VRTS set the percentage levels for the proportion of vehicles in a manufacturer's fleet that may be non-ZEV (i.e. petrol/

[1] https://www.gov.uk/government/statistics/provisional-uk-greenhouse-gas-emissions-statistics-2024

diesel/hybrid/plug-in hybrid electric). These allowance levels are the inverse of the ZEV target – in 2024, the ZE target was 22%, so manufacturer fleets were permitted to be up to 78% non-ZEV. These targets are enforced by providing 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.

The CO_2 standard (CCTS and VCTS) sets CO_2 baseline targets for vehicle manufacturers to ensure that their fleet-wide CO_2 emissions do not exceed 2021 levels. The CCTS and VCTS targets are enforced by requiring vehicle manufacturers to submit one allowance per 1gCO_2/km emitted by their new non-ZEV vehicles registered in a calendar year. As with the ZEV mandate, manufacturers receive allowances equal to their 2021 emissions baseline, multiplied by the number non-ZEVs that they sell in each calendar year.

1.6 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) that overcompliance/those allowances to manufacturers that have not complied with the requirements. For example, manufacturers that over-comply with the VRTS target will have excess VRTS allowances. These excess VRTS allowances can be traded with other manufacturers that have not met their VRTS targets.

1.7 Manufacturers may also use other flexibilities to support their routes to compliance.

1.8 These flexibilities include, but are not limited to:

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.

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%.

Conversion: Manufacturers that over-comply with the targets from the CRTS or VRTS will have excess CRTS / VRTS allowances spare. These excess CRTS / VRTS allowances can be converted CCTS / VCTS allowances for use against CCTS / VCTS targets. Conversely, manufacturers that overcomply with targets from the CCTS / VCTS scheme will have excess VCTS / CCTS allowances; these too can be converted to CRTS / VRTS allowances to be used against the CRTS / VRTS targets, subject to an annual cap.

1.9 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.

1.10 With regard to the borrowing and CO_2-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.

1.11 In recognition of the global challenges faced by the automotive industry in recent years, the four nations agreed to launch a consultation to review the design of the flexibilities.

1.12 The public consultation was titled 'Phasing out sales of new petrol and diesel cars from 2030 and supporting the ZEV transition'[2] and ran for eight weeks from 24 December 2024 to 18 February 2025. Ministers from all four nations held a number of bilateral meetings and roundtables, and DfT officials on behalf of four nations officials delivered several stakeholder workshops to ensure that the widest possible set of views was obtained. Most manufacturers requested further flexibilities to better support industry through the transition to zero-emission vehicles.

1.13 On 7 April 2025, the government and devolved governments published a joint response to the consultation[3]. The response confirmed that existing flexibilities would be extended and that new flexibilities would be introduced. This instrument amends the VETS Order 2023 to deliver these commitments.

What did any law do before the changes to be made by this instrument?

1.14 The previous policy imposed certain conditions and restrictions on flexibilities available under the VETS Order. This instrument amends some of those conditions and introduces new pathways to compliance as detailed below.

1.15 Originally, the borrowing flexibility was only available from 2024-2026, each year was subject to a borrowing cap, and all borrowed allowances had to be repaid by 2027. This instrument extends the borrowing flexibility from that original end date of 2026, to 2029, meaning borrowing is now possible from 2024-2029 inclusive, and introduces new borrowing caps for the new 2027-2029 borrowing period. The borrowing cap for both cars and vans has also been increased for 2025 only. The instrument also extends the borrowing repayment deadline to 2030 (instead of 2027).

1.16 Originally, the flexibility to convert overachievement against the CO_2 targets (from the CCTS and VCTS) into compliance for the ZEV targets (under the CRTS and VRTS) was only available from 2024-2026, and each year was subject to a specific conversion cap. This instrument also extends that deadline from 2026 to 2029, meaning such conversions are now permitted from 2024-2029. New conversion caps for 2027-2029 have also been established, and the conversion caps for 2025 and 2026 have been increased, meaning manufacturers may benefit from reducing the emission of their non-zero emission vehicles for longer, and to a large extent.

1.17 Originally, the VETS Order did not permit interactions between the car (CRTS and CCTS) and van (VRTS and VCTS) trading schemes; the CRTS and CCTS schemes were separate/distinct from the VRTS/VCTS schemes. This instrument allows bidirectional trading and conversion between the car (CRTS) and van (VRTS) schemes of the ZEV mandate only. These bidirectional trades and conversion are subject to new exchange rates.

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[2] https://www.gov.uk/government/consultations/phasing-out-sales-of-new-petrol-and-diesel-cars-from-2030-and-supporting-the-zev-transition/

[3] 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/

1.18 The official CO_2 emissions value for plug-in hybrid electric vehicle ("PHEVs") is calculated through the Worldwide harmonised Light vehicle Test Procedure ("WLTP") using a variable known as the utility factor (UF). The UF represents the assumed share of driving done by PHEVs in electric mode (using the battery) compared to driving done using the internal combustion engine. Research has shown that the UF overestimates how often drivers charge their PHEVs. In the real-world PHEVs tend to be driven much more in petrol/diesel mode, which causes real-world PHEV CO_2 emissions to be higher than as determined by the UF calculations. This has resulted in a globally-recognised performance gap between PHEV official type-approval figures and real-world CO_2 emissions.

1.19 Therefore, in the relevant United Nations Economic Commission for Europe ("UNECE") regulations and in the European Union ("EU"), the UF is being updated in 2025, and again in 2027, to better reflect the real-world performance of PHEVs. As the UK is a signatory to the relevant UNECE Regulations, new vehicles type approved according to UNECE regulations are allowed to be sold on the UK market. New vehicles sold in Northern Ireland will also be required to be approved in accordance with the latest EU standards by virtue of the Windsor Framework. As a result, vehicles with CO_2 emissions calculated with the new UF will be on the UK market from 2025 onwards.

1.20 The CO_2 standard (CCTS and VCTS) measures a manufacturer's CO_2 emissions against a 2021 'baseline'. The change in how PHEV CO_2 emissions are calculated will have an impact on compliance with the CO_2 baseline targets from the CCTS and VCTS. Due to these wider changes, manufacturers would have been required to report the updated CO_2 values of plug-in hybrids as uplifted in 2025 and 2027, respectively. These uplifts would have made it more challenging to comply with the CO_2 baseline targets which were based on the plug-in hybrid CO_2 values as they applied in 2021. This instrument allows manufacturers to report modified CO_2 emission values for plug-in hybrids that are approximated to 2021 values (rather than the updated values coming into force in 2025 and 2027). The instrument allows this alternative reporting until 2030.

1.21 Manufacturers that miss their ZEV (CRTS and VRTS) targets (i.e. do not meet the target through vehicle registrations, trading, or use of flexibilities) must make a compliance payment for every zero-emission car or van by which they have missed their targets. The compliance payment level was originally set at £15,000 per car and £18,000 per van. This instrument reduces the compliance payment levels to £12,000 per car and to £15,000 per van.

1.22 Originally, the flexibility to convert overachievement against the ZEV (CRTS and VRTS) targets into compliance for the CO_2 (CCTS and VCTS) targets was subject to an eligibility criterion. The criterion required manufacturers to meet their ZEV (CRTS and VRTS) targets using allowances for the current year only. This was an error as the eligibility criterion should have also included banked CRTS and VRTS allowances from previous years. This instrument amends the eligibility criterion to permit CRTS and VRTS allowances from the current year and any banked CRTS and VRTS allowances from previous years to be considered when determining eligibility for the ZEV-to-CO_2 flexibility.

1.23 Some vans are built in a multi-stage process, whereby each stage of the van has a different CO_2 value associated with it. In these instances, the base vehicle manufacturer creates a 'base' vehicle which includes the drivetrain - the system that

transmits power from the engine to the wheels, enabling the vehicle to move. A second manufacturer will then obtain the 'base' vehicle and complete the build to produce a completed van. The completed van may then go onto to be registered in the UK and thus would be subject to the VETS Order. Under the VETS Order, the base vehicle manufacturer is deemed to be responsible for the completed van. As such, the VETS Order contains a series of formulae to approximate the emissions of the final vehicle using figures from the base vehicle stage, to provide base vehicle manufacturers with emissions certainty. One of the formulae assumes that a certain mass will be added to the vehicle, called the mass representative of the vehicle load ("MVL"). The MVL is determined by a formula in Schedule 3 of the VETS Order. Currently, one of the brackets in the formula is incorrectly positioned resulting in an overestimation of specific CO_2 emissions, which may make it more challenging for manufacturers to comply with their VCTS and CCTS targets. Therefore, this instrument corrects this error in the application of the formula for MVL to ensure that the correct specific emissions value is calculated.

What is being done and why

1.24 This instrument amends the VETS Order 2023 using powers under sections 44, 46(3), 54 and 90(3)(a) and (b) of, and paragraph 9 of Schedule 3 to, the Climate Change Act 2008. This instrument makes amendments to the VETS Order 2023 to extend the timeframes, caps and eligibility criteria of flexibilities, and update compliance payment amounts. It also introduces new articles into the VETS Order 2023 to deliver new flexibilities.

EU Alignment Consideration

1.25 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").

Consultation

1.26 On 24 December 2024, the UK Government, the Department for Infrastructure (Northern Ireland), the Welsh Government and the Scottish Government launched a public consultation[4] seeking views on measures to support the transition to zero-emission cars and vans. A series of workshops was also delivered to industry stakeholders.

1.27 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.

[4] https://www.gov.uk/government/consultations/phasing-out-sales-of-new-petrol-and-diesel-cars-from-2030-and-supporting-the-zev-transition/

1.28 On 7 April 2025, the joint government response to the consultation was published. It committed to extending existing flexibilities and creating new flexibilities to address manufacturers' concerns, whilst also maintaining wider climate ambitions.

1.29 On 10 July 2025, the 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 for Transport sent out, on behalf of all four nations, 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.

1.30 The 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.

1.31 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 website.

Impact Assessments

The Scottish Government, UK Government, Welsh Government, and Department for Infrastructure (Northern Ireland) undertook a full cost benefit analysis that assessed regulatory, environmental, equality and cost impacts of VETS. In addition, the Scottish Government undertook two partial impact assessments. They are:

- Business and Regulatory Impact Assessment.
- Island Communities Impact Assessment.

The cost benefit analysis is available on the UK Government website. Copies of the two impact assessments are available on the Transport Scotland website.

Financial Effects

A full cost benefit analysis was completed for the original legislation. A partial Business and Regulatory Impact Assessment (BRIA) was also completed.

Scottish Government
Transport Scotland, Environment, Climate and Sustainability Directorate

29 September 2025