



Key messages

- Automotive manufacturing contributes **£14.4bn in GVA to the UK economy and employs 142,800 people**, while supporting a broad ecosystem of engineering, design, R&D, logistics and supply chain businesses across the UK¹.
- The sector is navigating a challenging industrial transition, with £billions spent to design, build and market zero-emission vehicles, a more challenging trading environment and a rising cost base in the UK – with energy costs the highest in Europe and having more than doubled since 2019².
- **Government can strengthen the UK's automotive competitiveness** by urgently reforming the ZEV mandate, securing fair trade and resilient supply chains – notably with the EU, and cutting energy and business costs.

Table 1: Key business tax contribution figures for the automotive industry³

	2024/25	2025/26	Difference
Business tax contribution	£1.67bn	£1.91bn	+14.4%
Tax contribution as a share of GVA	10.8%	13.4%	+2.6 ppt
Employers' NICs	£0.53bn	£0.75bn	+42.3%

Strategic importance

Automotive manufacturing (SIC29) is one of the UK's most important advanced manufacturing industries and a critical strategic growth sector. The sector comprises more than 3,550 businesses, ranging from globally recognised volume and premium vehicle manufacturers to specialist engineering firms and an increasingly electrified supply chain. The UK is also home to the world's largest collection of small-volume vehicle manufacturers, producing many globally recognised automotive brands.

The UK automotive sector is internationally recognised for advanced engineering, innovation and design excellence. More than 20 R&D centres and nine design centres are located in the UK, supporting the development of next-generation vehicle technologies and advanced manufacturing processes. The sector also underpins a broad network of industries spanning

metals, chemicals, electronics, logistics, software, finance, insurance and professional services, with production volumes having a direct impact on activity across these supply chains.

The sector is expected to play a central role in the UK's future growth ambitions. Under the right conditions, UK vehicle production could increase by more than 50% by 2035, and higher still if the Industrial Strategy's 1.3 million plus vehicles per annum ambitions can be realised by attracting new producers to the UK. This needs growing battery production, zero-emission supply chains and continued investment in advanced manufacturing to anchor existing OEMs and suppliers⁴. As global competition for automotive investment intensifies, maintaining a competitive business environment will be critical to securing future production, innovation and high-value jobs, while supporting the UK's transition to zero-emission mobility and advanced manufacturing leadership.

Growing cost pressures

Automotive manufacturers are facing rising labour, energy, financing and supply chain costs. Median salaries have increased by 34.9% since 2019, while changes to employer National Insurance Contributions (NICs) added an estimated £1,000 per worker in additional costs. Average pay in the sector is 23.5% above the UK average, showing the benefits high value growth in the sector can deliver⁵. At the same time, higher borrowing costs have increased the cost of financing investment, particularly for SMEs seeking to fund working capital and expansion. Energy costs have been particularly challenging, with electricity and gas prices more than doubling since 2019, up 105% and 116% respectively⁶. DESNZ figures also show industrial electricity costs are the highest in Europe, 115% above the average. Manufacturers have also faced ongoing commodity price volatility and supply chain disruption, including shortages of semiconductors and rising costs for metals, materials and oil-based products. These pressures have created additional uncertainty for businesses already managing significant investment requirements and intensifying global competition. Employment in automotive manufacturing has fallen by 14.7% since 2019, reflecting both structural changes within the industry, automation, but also the increasingly challenging operating environment facing manufacturers⁷.

Improving the operating environment

As a strategic growth sector undergoing a significant industrial transition, automotive manufacturers require a competitive operating environment that supports investment, innovation and long-term production growth. However, the sector faces several structural challenges that are increasing costs and constraining competitiveness.

1. Industrial energy competitiveness

Energy costs remain one of the most significant challenges facing UK automotive manufacturers. UK industrial electricity prices are now 115% above the EU+UK average, reducing competitiveness and making it more difficult for UK facilities to secure future

investment⁸. This is particularly challenging as manufacturers transition towards more electricity-intensive production processes, including battery manufacturing and electrified vehicle assembly. SMMT welcomes the British Industrial Competitiveness Scheme (BICS) which will support the sector, but it will still leave electricity prices some 60% above the EU average. SMMT recommends the Government looking at minimising non-commodity costs and moving them to general government spending, decoupling electricity prices from the international price of gas and further incentivising industrial decarbonisation and transformation.

2. Grid connections and industrial infrastructure

Access to affordable and timely grid connections has become an increasing constraint on investment and decarbonisation. Manufacturers are seeking to electrify production processes and invest in lower-carbon operations, but delays and costs associated with securing grid connections are slowing projects and weakening business cases. While government has prioritised grid access for some sectors, automotive manufacturers argue that similar consideration should be given to industrial decarbonisation projects to support competitiveness and investment in an industrial strategic sector.

3. Supporting the transition to zero-emission vehicles

Manufacturers have invested billions of pounds in the transition to zero-emission vehicles, and more than 160 electric vehicle models are now available to UK consumers, with over 70 more due this year alone. However, demand has not developed at the pace anticipated when transition policies were designed, creating a growing disconnect between market demand and regulatory expectations. This risks undermining investment, competitiveness and the pace of the transition itself.

Tackling the regulatory burden

The automotive sector is managing a period of significant technological and regulatory change as manufacturers invest in electrification, new vehicle technologies and lower-emission production processes. Businesses report that the challenge is often not individual regulations in isolation, but the cumulative impact of multiple policy and regulatory changes being introduced over a relatively short period of time.

The sector is trade intensive and operates within a highly competitive global market where investment decisions are influenced by the relative attractiveness of different manufacturing locations. Manufacturers therefore place particular importance on regulatory frameworks that are aligned with market conditions, provide long-term certainty and support investment in new products and production capacity.

UK automotive manufacturers engage with a complex web of regulations – both automotive specific and horizontal - at national, EU and UN level and work with enforcement bodies across government, including on the following UK / GB regulations:

Department for Business, Innovation, Science and Trade (BIS)	
Regulation	Regulator
Motor Vehicle Block Exemption Order 2023	Competition and Markets Authority
Department for Transport (DfT)	
Regulation	Regulator
The Road Vehicles (Approval) Regulations 2020	Vehicle Certification Agency / Driver and Vehicle Standards Agency
The Road Vehicles Lighting Regulations 1989	Vehicle Certification Agency / Driver and Vehicle Standards Agency
The Road Vehicles (Construction and Use) Regulations 1986	Vehicle Certification Agency / Driver and Vehicle Standards Agency
The Motor Vehicles (Driving Licences) Regulations 1999	Driver and Vehicle Licensing Agency
Vehicle Emissions Trading Order 2023	DfT
Department for Environment, Food and Rural Affairs (Defra)	
Regulation	Regulator
End of Life Vehicle Regulations 2003	Defra / Office for Product Safety and Standards (OPSS) / DVLA/Environment Agency
Batteries and Accumulators (Placing on the Market) Regulations 2008	OPSS
Waste Electrical and Electronic Equipment Regulations 2013	OPSS

Within this wider regulatory landscape, SMMT has identified the following regulatory burdens as having a particularly significant impact on competitiveness, investment and the transition to zero-emission vehicles.

1. Review the Zero Emission Vehicle (ZEV) Mandate

Challenge: The Zero Emission Vehicle (ZEV) Mandate sets legally binding annual targets for vehicle manufacturers, with targets rising to 80% for cars and 70% for vans by 2030. Despite £billions of industry investment in designing, building and marketing ZEVs, including £12 billion in discounts since the mandate came into force, the market has consistently fallen short of annual targets, and the gap is expected to widen as compliance trajectories become significantly more demanding. The Mandate was designed at a time when electricity costs were lower, battery prices were expected to fall more rapidly, and demand for zero-emission vehicles was forecast to grow more quickly than has materialised. While compliance flexibilities exist through banking, borrowing, trading and the purchase of credits, these mechanisms create additional costs for manufacturers and do not address the underlying challenge of insufficient market demand. The re-introduction of a

consumer grant has helped, but there is now unanimity amongst automotive business leaders that targets are behind schedule, and the current framework risks undermining investment, competitiveness and consumer choice as other major automotive markets adapt their transition pathways to reflect changing market conditions.

SMMT recommendation: SMMT welcomes the Government's consultation on the ZEV Mandate (Vehicle Emissions Trading Scheme (VETS) Order) – and should make urgent reforms, including the necessary regulatory and market remedies, with any changes made clear to industry before the end of this year and in force for the 2027 compliance period. This should include amending the trajectories for cars and vans and enhancing the flexibilities, to better reflect current market conditions, geopolitical realities and consumer demand.

Expected impact: A more realistic and flexible transition framework would help maintain the competitiveness of the wider UK automotive sector (e.g. manufacturers, dealers and suppliers), protect and encourage investment and broaden consumer choice, as well as support a more sustainable pace of decarbonisation. Reducing compliance pressures would also help manufacturers continue investing in new technologies and vehicle production in the UK, rather than diverting resources into managing compliance costs. This would ultimately support the government's decarbonisation ambitions, rather than slowing them.

2. Enhance the UK-EU trade deal, ensuring it fundamentally addresses electric vehicles

Challenge: International trade is critical for the automotive industry – some 80% of the vehicles we produce in the UK are exported and more than 90% of the vehicles we buy are imported, creating a trading hub worth over £110 billion. We have long, global and complex supply chains, given more than 10,000 components make up a finished vehicle. Trade barriers have been a notable factor in the challenges faced by the automotive sector since 2019 (outside of Covid and Brexit). The EU remains the UK's largest trading partner – with more than 60% of new cars registered in the UK coming from the EU and around 45% of cars made in the UK exported to the EU. Therefore, the UK's departure from the EU has added significant complexity and burden. We have also seen regulatory barriers emerge, as our regulations have diverged over time.

The EU's 'Made in Europe' proposals (through the Automotive Package and the Industrial Accelerator Act) threaten to create a new and very significant barrier for the UK industry to sell into the EU, which would create an existential threat to domestic production, but also significantly impact the European supply chain which feeds into the UK industry.

Separately, impacts of stricter TCA Rules of Origin, setting unattainable regional content and battery sourcing requirements for EVs, were narrowly avoided by agreeing on a last-minute extension just ahead of their planned implementation in January 2024. However, from January 2027, new and much more demanding origin rules are set to apply, with which industry on both sides of the Channel will struggle to comply, bringing the threat of 10% tariffs on the very models we need to meet environmental mandates.

SMMT recommendation: Urgent action is needed to address these threats. The UK must secure inclusion within Made in Europe as a top priority, ensuring that all UK automotive

content is considered equivalent to EU content, covering both vehicle assembly and supply chain. The rules of origin requirement for electrified vehicles must be revisited as a matter of urgency by both parties in a pragmatic way to avoid tariffs while the industry develops battery manufacturing capability in Europe.

Expected impact: The UK and EU automotive industries are deeply entwined; we are each other's largest trading partner. Trade arrangements which restrict access and increase costs will be damaging for volumes, competitiveness, trade values and of course the consumer in our respective markets. Urgent action is needed to ensure Made in Europe and Rules of Origin requirements do not damage the industry nor wider decarbonisation progress.

3. GB Type Approval Scheme (under the Road Vehicles Approval Act and others)

Challenge: Prior to Brexit, type approval, which demonstrates that vehicles comply with the relevant safety and environmental standards and is required to register vehicles in the UK, was granted in a single EU member state and could then be mutually recognised in any other EU member state. Since Brexit, it is now necessary to duplicate that process to register vehicles in GB (Northern Ireland still follows EU rules in this case). While there is a "presumption of alignment" with EU regulations under the current government, the mechanism for ensuring that the legislation remains aligned is not sufficiently robust to provide regulatory certainty for vehicle, systems and component manufacturers either selling into the UK market or to those investing in the UK. There is also a resulting challenge to the UK's internal market.

SMMT recommendation: For vehicles approved as unlimited series, government should consider using the EU type approval scheme as the basis for the GB version, accepting EU approvals at all levels and applying GB Conformity of Production, Market Surveillance and In-Service Conformity checks to enforce the requirements. If this is not possible, it is essential that a legal certainty is provided to the industry that there will be no divergence between the EU and GB schemes.

Expected impact: For vehicles built in unlimited series, a single set of tests and approvals would be needed to demonstrate compliance in GB and the EU, reducing the administrative and testing costs associated with the GB scheme and equally importantly, providing regulatory certainty for those looking to invest in, or sell product into, the UK.

Endnotes

¹ ONS (2026), *GDP output approach – low level aggregates*, available at: [GDP output approach – low-level aggregates - Office for National Statistics](#)

² Department for Energy Security and Net Zero (DESNZ) (2026), *International non-domestic energy prices*, available at: [International non-domestic energy prices - GOV.UK](#)

³ The CBI used its business tax contribution analysis in which we break down taxes by industry on a 2-digit SIC level. For employers' NICS we used the latest [ASHE](#) and [BRES datasets](#) to distribute ER NICs by industry. To estimate the contribution as a share of GVA, we used the latest [ONS GVA estimates by industry](#) to estimate the sectoral business tax contribution. Where it was not possible to assign the sector firmly to one or multiple 2-digit SICs, we asked TAs to provide data which we used and scaled accordingly. It should be noted that for some sectors there is a larger margin of error in the contribution statistics given 2-digit SICs do not necessarily fully align with the specific activities progressed in certain sectors. For the automotive sector, we used SIC 29.

⁴ SMMT (2026), *Production outlook – Q1 2026 report*, available at: [Production Outlook - SMMT](#)

⁵ ONS (2025), *Earnings and hours worked, industry by four-digit SIC: ASHE Table 16*, available at: [Earnings and hours worked, industry by four-digit SIC: ASHE Table 16 - Office for National Statistics](#)

⁶ Department for Energy Security and Net Zero (DESNZ) (2026), *International non-domestic energy prices*, available at: [International non-domestic energy prices - GOV.UK](#)

⁷ ONS (2026), *JOBS03: Employee jobs by industry*, available at: [JOBS03: Employee jobs by industry - Office for National Statistics](#)

⁸ DESNZ (2025), <https://www.gov.uk/government/statistical-data-sets/international-non-domestic-energy-prices>



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