



The Centre For Business Relationships,
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Comment and Analysis

Car scrappage incentives in the UK



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A Car Scrappage Incentive for the UK; Would it Work?

By Dr Paul Nieuwenhuis

In the context of the dismal car market in the UK – and worldwide – it has been suggested that one way to stimulate demand and perhaps save a few jobs, would be the introduction of a scrappage incentive. Under ideas put forward at the moment, any owner of a car older than 9 years would be able to trade it in for a new car and receive a discount – from the tax-payer – of up to £2000, or so. Such schemes have been tried before in other countries, but never in the UK. The idea of scrapping older cars in order to stimulate sales of new cars was first tried by General Motors in the US in the 1920s, at least until it occurred to someone that selling these pre-owned cars rather than scrapping them could be more profitable in the long run – the trade-in concept was born.

At CAIR and BRASS we have long been sceptical of such schemes, a view partly informed by some work we carried out on two French scrappage incentive schemes in the 1990s, but also by a general suspicion of the whole concept of the premature disposal of perfectly usable products, particularly ones that embody the amount and range of raw materials that a car does. The throw-away concept has no place in a sustainable society and runs counter to the principles of sustainable consumption and production (SCP) as promoted by the United Nations and supported by the UK government. Under SCP we should move towards consuming more quality and less quantity. The counter argument is of course that new cars are much cleaner in terms of toxic emissions – usually correct – and that they emit less carbon dioxide – sometimes correct. The latter has often been undermined by weight gain of equivalent cars in the intervening years; however a new generation of internal combustion engines combined with other measures such as ‘stop-start’, are making new cars significantly better in terms of CO₂ emissions than their predecessors of even a few years ago. This does not necessarily equate to them being more sustainable, although it should in itself be an incentive to buy a new car. Sustainability requires more of a lifecycle approach. Although figures vary – depending to a large extent on the length and nature of operating life one assumes – the consensus seems to be that the use phase represents roughly 70%-80% of the lifecycle impact in terms of energy consumption and CO₂ emissions, while the remainder represents raw material extraction, manufacturing and disposal/recycling (yes, this too has an environmental impact, despite its benefits).

The UK car market is somewhat peculiar in that the majority of cars sold here are bought by businesses in some form. Private buyers of new cars are in a minority; most private buyers buy used cars, which are often former company cars. The choice of cars available in the market is therefore largely in the hands of the company car fleet buyers and user-choosers. As a result of CO₂-based tax incentives these buyers have been buying increasingly lower CO₂ emitting cars in recent years. Company cars also tend to do significantly higher annual mileages than private cars, so although they may emit lower CO₂ emissions, this could well be offset by their higher mileage.

In France, one of the countries where such schemes have been tried before, the pattern is quite different. Here many private buyers buy small cars new and keep them for many years, replacing them

often with another cheap new car. This pattern suits the scrappage schemes well, although there are some problems even here, which I will outline below. Germany too has become a market where most buyers buy new, rather than used; this transition came in the 1990s as the country became wealthier. By contrast, in the UK the first hurdle would be convincing private buyers to buy new, rather than used or nearly-new cars. The next problem would be convincing the buyer that the incentive is greater than any discount he or she might have received in any case. For this, the past incentive schemes in countries such as France have been accompanied by a further discount from the manufacturer and/or dealer.

This combination of incentives can make it an attractive deal. However, experience in France during the 'Baladurette' and 'Jupette' (named after the politicians in charge at the time of each scheme, Baladur and Juppé respectively) incentives of the 1990s suggests that there are some problems with this too. The cars sold under these incentives were mainly imported. Such imports included many Renaults from Slovenia, SEATs and VWs from Spain, Fiats from Poland, etc. So one of the arguments in favour of these incentives – saving French jobs – while perhaps applying to dealers, did not benefit car makers. Very few small cars are produced in the UK. Apart from a few Nissan Micras and the premium-priced MINI, the UK makes Jaguars, Land Rovers, medium and large sized Nissans, Toyotas, Vauxhalls and Hondas, and a range of expensive and large low volume cars such as Bentleys, Rolls-Royces, etc. Most of these are also sold to business buyers rather than private buyers. It is of course possible to use the incentives to stimulate sales of cars to business. However, under EU rules it would be difficult to exclude imported cars, such as Mercedes or BMW from such a scheme. In most cases, therefore, while dealers may benefit, the highly skilled automotive engineering sector that is worth protecting in this country is unlikely to benefit despite considerable expense to the tax payer. In fact, the Belgian government has just dismissed the idea of a scrappage scheme as too expensive. The higher taxes already likely to result from bailing out the financial sector will in fact have a further depressing effect on the new car market, though using these to support car manufacturers' finance houses seems to make some sense.

As part of the scheme, the cars traded in would actually be scrapped; rather than shipped to less affluent markets, as is the usual practice. A few years ago the scrap value of these might have been considerable, as China and India sucked recyclable materials from the rest of the world to feed their rapidly expanding manufacturing sectors. This has now changed and flooding the scrap market is likely to depress scrap prices still further. In addition to the recoverable recyclable materials, cars also contain quantities of toxic materials, which would have to be processed in an appropriate manner.

Our work on the two French scrappage incentives of the 1990s concluded that from an environmental perspective, the schemes gave mixed results. Certain toxic emissions were reduced over the lifecycle of the car(s) used as samples. However, in terms of CO₂ emissions, the premature scrappage showed a negative net benefit over the lifecycle. In our case the sample vehicles were Renaults of equivalent market segment in each period of 1970s, 1980s and 1990s. Over the years covered by the study these did put on weight and became slightly less fuel efficient. The past ten years may well show an improvement, though not as much as is likely to be shown by 2012, or even 2015 models as compared with 2002 models. If a scrappage incentive is to go ahead on CO₂ reduction grounds, it is better to wait until the more radical fuel efficiency improvements currently in the pipeline are readily available in the market. If it is aimed at helping out dealers and car sales staff, it would probably work in the short term,

although the French incentive also showed that demand fell off rapidly at the end of the incentive scheme, which harmed many dealers. If it is aimed at saving UK car manufacturing jobs, it would have to be aimed exclusively at cars built in the UK – impossible under both EU and WTO rules. If the aim is to protect jobs in the high value added, high skill UK design engineering and automotive R&D sector, a scrappage incentive is a waste of money which could be targeted in a more sophisticated fashion.

So, in conclusion: Apart from its doubtful benefits in the context of SCP, does a scrappage incentive really make sense in the UK?