

IATA submission of evidence:

Sustainable Aviation Fuel Bill

Background

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing over 350 airlines that make up more than 80% of global air traffic. IATA's member airlines include many that operate flights to and from the UK, including UK airlines British Airways, Virgin Atlantic, Loganair, and DHL Air UK. IATA supports many areas of aviation activity and helps formulate industry policy on critical aviation issues to drive a safe, secure, and sustainable industry.

Introduction

Sustainable Aviation Fuel (SAF) is a cornerstone of the aviation industry's net-zero strategy, with IATA estimating it will account for 65% of the sector's CO₂ reductions by 2050. Global SAF production reached 1 million tonnes in 2024, and it is projected to double to 2 million tonnes in 2025; however, this still represents only 0.7% of the industry's total jet fuel usage.

As reflected in the IATA [Net Zero CO₂](#) Emissions and [Policy](#) Roadmaps, the industry welcomes support mechanisms to facilitate the scaling of SAF production capacity and to encourage the diversification of SAF production pathways. It is positive to note that the RCM could address both these objectives simultaneously. However, the source of its funding is an important consideration for the aviation industry, as it is important to ensure that the cost of the incentive scheme is not passed on to airlines and their customers

The use of UK ETS revenues as a source of funding for the RCM

IATA would like to propose that the RCM be funded by revenues collected from airlines in the UK ETS. These revenues are already significant today and should increase considerably due to the phasing out of the free allocation for aviation operators from 2026 (free allowances in excess of 4 million tonnes were allocated annually from 2021 to 2025). Assuming the end of the free allocation of about 4 million tonnes from 2026, an additional UK ETS revenue amounting to upwards of GBP 250 million per year could become available.

The proposed approach of earmarking revenues from the UK ETS for the RCM would ensure that the industry contributes to developing the UK's SAF production capacity without being subject to an additional financial burden and that these revenues are used for the industry's decarbonization. A levy on aviation fuel suppliers is intended to allow costs to be spread across the supply chain. However, from airlines' experience with the implementation of the UK SAF mandate which has showed, specifically overly high compliance fees associated with the UK SAF Mandate¹, any levy on fuel suppliers would inevitably be passed on to airlines, often with an additional risk premium. Subjecting airlines to an additional levy would take away important funds to invest in other decarbonization levers, including voluntary purchase of SAF, fleet renewal, and operational improvements. This proposed approach is not new. In Europe, the Innovation Fund backs projects for the innovation of low carbon technologies and is funded by EU Emissions Trading System (ETS) revenues. To adapt to the scheme's changing funding needs, an element of dynamism in using UK ETS' aviation revenues can be introduced to emulate the flexibility that the levy on fuel suppliers may offer.

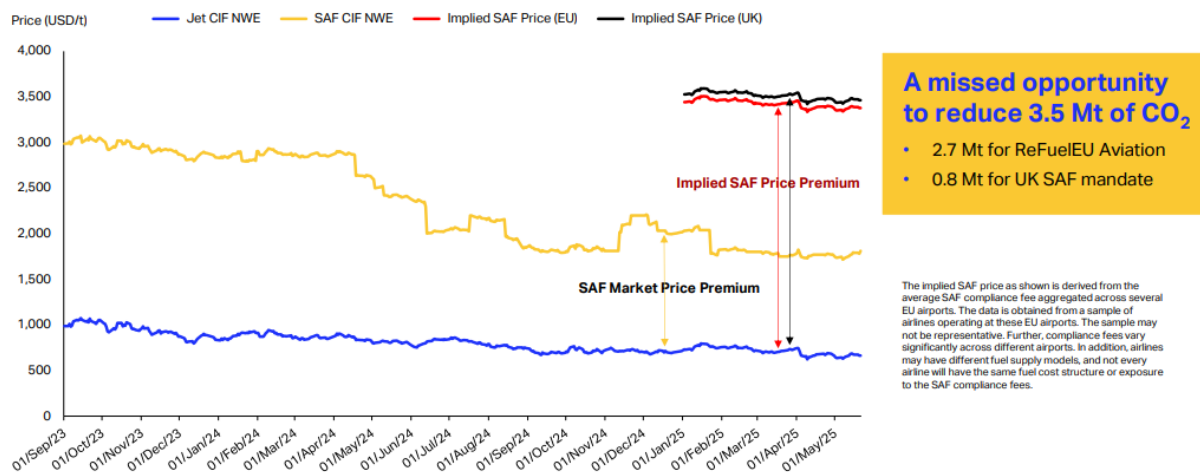
¹ IATA provided evidence of the overly high compliance fees already associated with the UK SAF Mandate in a letter to officials on 7 February 2025.

The Impact of SAF Mandates and Compliance Fees

Both the UK's SAF mandate and the ReFuelEU Aviation mandate came into effect in January 2025, requiring fuel suppliers to ensure that, on average, 2% of jet fuel uplifted at European airports contains SAF. This percentage is set to rise to 10% by 2030 in the UK. While these mandates aim to stimulate SAF adoption, a significant impediment has emerged in the form of exorbitant "compliance fees" imposed by fuel suppliers on airlines.

These fees, added to each tonne of fossil jet fuel purchased, are intended to cover the suppliers' cost of meeting the mandates. However, they are proving to be excessive, often more than double the prevailing market price premium for SAF. This contrasts sharply with the situation in the US, where incentive schemes through tax credits have bolstered SAF investments without mandates. Currently, the UK has only one facility producing commercial volumes of SAF, with plans for test facilities to scale up in the next five years.

EU& UK SAF mandates



Costs and Missed Opportunities

Airlines are currently paying, on average, three to five times more for SAF compared to conventional aviation fuel (CAF). This is far higher than anticipated when the policies were designed. In Europe, these inflated prices are primarily driven by the compliance fees, which are estimated to add an additional \$1.7 billion on top of market prices for 2025, with no corresponding emissions benefit.

To illustrate, figures from the EU show that airlines are projected to face an additional \$1.3 billion in excess surcharges during 2025 from the ReFuelEU compliance fees alone. This amount could have purchased an additional 1.2 million tonnes of SAF, based on an average market premium of \$1,100 per tonne since the ReFuelEU Aviation mandate was implemented. This represents a substantial missed opportunity to reduce CO₂ emissions by 2.7 million tonnes annually. The **situation is even more impactful in the UK** with the SAF mandate effectively foregoing a further 0.8 million tonnes of CO₂ reduction.

Ultimately, paying more to abate less is unacceptable. Stimulating SAF supply is crucial not only to maximize its use and accelerate CO₂ emission reductions but also to help keep prices down. The current structure of compliance fees undermines these goals, creating an undue financial burden on airlines without delivering proportional environmental benefits.

Transparency regarding SAF pricing

As airlines' current experience with the unintended consequences of implementing the UK SAF mandate has shown, and given the current unevenness in the market negotiating power between fuel suppliers and airlines, the former are expected to pass on any levies to airlines along with an additional risk premium. The continued



lack of transparency regarding SAF pricing is likely to exacerbate the current situation for airlines through the implementation of an RCM levy. Therefore, beyond the proposal for the levy, the design of the RCM should contain sufficient provisions to ensure transparency in its implementation. These provisions would make an essential contribution to controlling the cost of the RCM.