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By email to lowcarbonfuel.consultation@dft.gov.uk

SAF revenue certainty mechanism: approach to industry funding

Dear Sir or Madam

Fuels Industry UK represents the eight main oil refining and marketing companies operating in the UK. The Fuels Industry UK member companies – bp, Essar, Esso Petroleum, Petroineos, Phillips 66, Prax Refining, Shell, and Valero – are together responsible for the sourcing and supply of product meeting over 85% of UK inland demand, accounting for a third of total primary UK energy (based on the Department of Energy Security and Net Zero Digest of UK Energy Statistics 2022).

The refining and downstream oil sector is vital in supporting UK economic activity. It provides a secure supply of affordable energy for road and rail transport, aviation, and marine applications, as well as for commercial and domestic heating. It also supplies base fluids for use in lubricants, bitumen for use in road surfacing, and graphite for use in electric vehicle batteries and as electrodes in steel and aluminium manufacture.

Fuels Industry UK welcomes the opportunity to respond to the consultation on the SAF revenue certainty mechanism: approach to industry funding.

Our responses to the consultation questions are given in Attachment 1.

Yours sincerely

Chris Gould

Energy Transition Lead, Fuels Industry UK

Attachment 1: Fuels Industry UK Response

Q1. Do you agree or disagree on the proposed approach to place a levy on aviation fuel suppliers? If you disagree, why?

Fuels Industry UK has no consensus view on this, but a number of members do not agree that the levy should be placed on aviation fuel suppliers.

We believe that there is insufficient information provided in the consultation to form an informed and aligned position.

The consultation appears to be a call for evidence on the “minded to” position, rather than a consultation assessing the available options before a “minded to” position has been reached. A range of options should have been considered and presented in a previous consultation before this consultation was published. Our view is that this consultation has therefore been published too early in the development process and has not adequately considered alternative options.

Fuels Industry UK’s view is that should any SAF Revenue Certainty Mechanism Levy be created, then it should operate under the following key principles:

- Clarity
- Transparency
- Simplicity
- Fairness

The approach described in this consultation does not meet these criteria and we ask the government to reconsider the approach to the funding of a potential revenue certainty mechanism (RCM) accordingly.

We note that there is no accompanying impact assessment with this consultation document. This assessment should include a cost benefit analysis of all the potential ways to levy the aviation industry.

The lack of clarity on the proposals together with concerning, and potentially unworkable, options for aviation fuel suppliers suggested in the consultation again make it difficult to allow an informed position on this consultation to be agreed.

We disagree with the consultation statement that the levy should be applied to aviation fuel suppliers based on a “polluter pays” approach. This misunderstands this this key principle and fails to recognise that the aviation industry itself is a significant emitter of greenhouse gas, with airlines regulated under the UK Emissions Trading Scheme [1]. By the same principles, the levy could be applied to airlines or added to ticket prices as an additional fee, potentially through a similar mechanism to the Air Passenger Duty (APD) charge.

Transparency in approach is vitally important. It is important that costs are transparently passed through the supply chain (for example between producers, suppliers and passengers). It is also important that aviation passengers are aware of the additional costs they incur as a result of UK government support for the UK SAF production industry. The proposals contained in the consultation document and the potential imposition of a levy on aviation fuel suppliers does not contain this transparency. This transparency also allows

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[1] https://www.gov.uk/guidance/uk-emissions-trading-scheme-for-aviation-how-to-comply

airline passengers to potentially change their behaviours, which is consistent with the Climate Change Committee recommendations in the Carbon Budget 7 report [2].

It is important to ensure that exports of fossil aviation kerosene are not covered under a potential levy, remaining competitive on an international basis.

Risks of the proposed approach:

In 2023, the UK imported approximately 70% of its aviation fuel [3]. We expect that this figure is likely to increase further following the closure of the Petroineos Grangemouth oil refinery in 2025. Increased complexity in being able to pass on the levy through the supply chain could potentially lead to the UK being seen as less attractive for these imports in the future. The impact of this risk on announced airport expansion plans, such as Heathrow's third runway [4] also needs to be considered as part of wider, and coherent, policy development by government.

The UK needs to be seen as an attractive place to invest in line with the industrial strategy [5]. Fuels Industry UK supports the creation of new industries which create jobs and drive growth. The government must be careful that its policies do not promote new investments and jobs at the risk of losing established industries, jobs and investors. While the SAF RCM levy may provide investment opportunities for small SAF producers, it may deter wider investment in the fuel industry and cannot be looked at solely in isolation. Therefore, the overall, wider impact of additional levies needs to be carefully considered and developed in order to avoid this unintended consequence.

There is an inherent risk of tankering with the proposed approach to imposing a levy on fossil fuel suppliers. Tankering [6] is where aviation fuel is loaded on an aircraft at another jurisdiction (such as within the European Union) with the purpose of making a double, rather than single flight, in order to avoid increased fuel costs at the destination airport. This has the potential to reduce the volume of aviation fuel supplied at UK airports and increases overall GHG emissions due to the higher aircraft weights on the outbound journey. This should be avoided, and the risk would be mitigated by transparently applying the levy in aviation ticket prices through a similar mechanism to APD.

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[2] https://www.theccc.org.uk/publication/the-seventh-carbon-budget/
[3] https://www.gov.uk/government/statistics/petroleum-chapter-3-digest-of-united-kingdom-energy-statistics-dukes
[4] https://www.heathrow.com/company/about-heathrow/expansion
[5] https://www.gov.uk/government/consultations/invest-2035-the-uks-modern-industrial-strategy/invest-2035-the-uks-modern-industrial-strategy
[6] https://www.icao.int/environmental-protection/Documents/EnvironmentalReports/2022/ENVReport2022_Art38.pdf

RCM Funding Concerns:

The RCM needs to be focused on projects that only require initial certainty to reach their Final Investment Decisions (FID), rather than those which need long term support in order to be financially viable. The government will need to work closely with industry to ensure the contract application, assessment and awarding process is transparent and robust to ensure projects with the greatest probability of success and decarbonisation are selected. Allocation of revenue certainty funds should only be done upon delivery of SAF volumes.

The government consultation suggests that all market players will benefit from the RCM; however, this may not be true. This will depend on commercial arrangements for the RCM contracted volumes and fuel suppliers ability to pass on costs relating to the levy and purchase of non-HEFA SAF.

Another concern from a SAF developer perspective is that if a SAF producer is benefiting from an RCM, they should not have a commercial advantage over players in the market not utilising an RCM and who can enter the market without it. It is important that this is considered in the funding and design of the RCM.

The approach seems to be suggesting that there will be a 15-year contract for SAF producers to create investor certainty but also mentions flexibility; this seems counterintuitive, and we would encourage the government to clarify this as part of the consultation response. We also note that the policy intention seems to be to "kick-start" investment, but this is potentially at odds with the development of 15-year contracts, which may not be viewed as being short term.

The government should be cautious and rigorous in deciding which projects to support under the Revenue Certainty Mechanism to ensure it meets the design principles of clarity, transparency, simplicity and fairness that we describe above.

Alternative Approaches:

As we discuss above, another alternative approach would be to place the levy on aviation users such as airlines and air cargo companies, rather than fossil fuel suppliers. Under the "polluter pays" principle [7], it would be more appropriate to place it on the aviation industry as the emitter who combusts the final product. The emissions profile of the aviation industry is widely acknowledged, including their inclusion under the UK Emissions Trading Scheme (ETS). The administrative burden could easily be met by the aviation industry through existing systems in the same way as APD.

Some members suggest that one approach may be to adopt the approach successfully used by the National Oil Reserves Agency (NORA) [8] in the Republic of Ireland to create a strategic stock reserve; the agency announces the levy for all relevant suppliers over a specific period in time; this is then transparently passed through the entire supply chain to the end customer. The fixed amount has to be included separately as a line item on customer invoices and there were requirements on how companies captured revenues within accounting systems (which could support auditing requirements).

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[7] https://www.gov.uk/government/publications/environmental-principles-policy-statement/environmental-principles-policy-statement

[8] https://www.nora.ie/

Q2. Are there any other suitable options for funding a revenue certainty mechanism through the aviation industry? And why?

We disagree with the consultation statement that the levy should be applied to aviation fuel suppliers based on a “polluter pays” approach.

This misunderstands this this key principle and fails to recognise that the aviation industry itself is a significant emitter of greenhouse gas, with airlines regulated under the UK ETS.

The design of the UK ETS follows the “polluter pays” principle. Under this scheme the manufacturer in the UK pays for their production emissions through the ETS; equally power generation companies pay for their direct pollution through ETS, and this becomes part of the electricity billing cost. The consumer of aviation fuel, by the same principle should pay for their pollution of consumption; that is the airline or air freight company.

Therefore. the levy could be applied to airlines or added to ticket prices as an additional fee, potentially through a similar mechanism to APD. This approach is being adopted elsewhere, for example in Singapore [9], and should be considered by the UK government.

A levy on air traffic control charges is another potential option, as this could be applied to all users of aviation, whether passenger or cargo based. This approach would affect a small number of participants, in line with the rationale presented in the consultation document.

Some members suggest that one approach may be to adopt the approach successfully used by the National Oil Reserves Agency (NORA) in the Republic of Ireland to create a strategic stock reserve; the agency announces the levy for all relevant suppliers over a specific period in time; this is then transparently passed through the entire supply chain to the end customer. The fixed amount has to be included separately as a line item on customer invoices and there were requirements on how companies captured revenues within accounting systems (which could support auditing requirements)

We would therefore encourage the government to explore other options on the best place for a potential levy, bearing in mind the risks expressed in our response to Q1 and to provide clarity on potential cost increases for aviation passengers. We also suggest that the RCM is developed further before the sources of funding are consulted on and confirmed.

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[9] https://www.businesstravelnews.com/Transportation/Air/Singapore-to-Charge-Passenger-Fee-for-Required-SAF-Use

Q3. Do you agree with the proposed definition of aviation fuel suppliers?

We agree that the definition of an aviation fuel supplier is appropriate, given its close links to the obligations under the UK SAF mandate. However, the mechanics of what constitutes an aviation fuel supplier is complex and needs to be carefully considered. Aviation fuel suppliers already face a significant administrative burden, and the imposition of further requirements under the SAF RCM levy may increase this further. This should be avoided as far as possible.

One member's view is that the levy should be applied to fossil aviation fuel only in order to encourage further SAF supply as these volumes would not incur this additional levy, Another supplier has a view that the levy should be applied on all aviation fuel volume regardless of whether it is fossil or lower carbon component in order to address the risks of additional complexity and administrative burden for suppliers, and that this would result in the same net income from the RCM levy.

We note that exports of aviation fuel are exempt from the UK SAF mandate and would reasonably expect that this exemption would continue to the SAF RCM levy.

As we articulate in our responses to Q1 and Q2, we would encourage the government to explore other options on the best place for a potential levy, bearing in mind the risks expressed in our response to Q1 and to provide clarity on potential cost increases for aviation passengers.

Q4. How would you like the government to work with industry on the detailed design for a levy?

Fuels Industry UK's view is that any SAF Revenue Certainty Mechanism Levy should be created under the following key principles:

- Clarity
- Transparency
- Simplicity
- Fairness

The approach described in this consultation does not meet these criteria and we ask the government to reconsider their approach accordingly.

The consultation appears to be a call for evidence on a "minded to" position, rather than a consultation assessing the available options before a "minded to" position has been reached. A range of options should have been considered and presented in a previous consultation before this consultation was published. Our view is that this consultation has therefore been published too early and not considered adequately alternative options before being published. We therefore ask that the government reconsider the approach presented in the consultation before further detailed development work is carried out.

Noting the above concerns, we would like to work with government to enable them to gain a more accurate understanding of the aviation fuel supply sector, through focused engagement sessions with key stakeholders. These should be developed prior to the publication of the further consultations, considering the views of our members.

Fuels Industry UK remains compliant with UK Competition Law at all times, which can necessarily restrict discussions commercial nature, including the potential pass-through costs to airlines by members (which is a commercial matter for them). This may need to be addressed through bilateral discussions with the DfT team, rather than at roundtable discussions. However, at a high level, this issue remains key to the successful introduction of the SAF RCM levy and must be adequately addressed as the levy develops.

In our view the current proposals for charging the levy on fuel suppliers are unworkable in their current form and need to be addressed. Key concerns are:

- The use of any form of retrospective pricing is impossible to administer for fuel suppliers, creating significant financial risk. We note the restrictions necessarily imposed by UK Competition Law on Fuels Industry UK and ask that this is adequately considered through bilateral discussions with individual companies. We also note that, for example, the Climate Change Levy (CCL) [10] does not use retrospective pricing.
- The proposal talks about a market share approach based on "predetermined" market share; this could be taken as being based on historic, prior year volumes. This could potentially mean that new entrants will not have to pay levies until the 2nd year of their operation.
- The proposals treat aviation fuel supplies as being broadly constant and predictable through the year. However, it also needs to consider how the treatment of future demand shocks, such as the effects of the COVID pandemic, are treated in the application of a levy in the future.
- Some members suggest that the NORA approach has been successfully used in the Republic of Ireland to cover the costs of a strategic cost reserve. A fixed amount has to be included separately as a line item on customer invoices and there were requirements on how companies captured revenues within accounting systems (which could support auditing requirements)
- Transparency in approach is vitally important. It is important that costs are transparently passed through the supply chain (for example between producers, suppliers and passengers). It is also important that aviation passengers are aware of the additional costs they incur as a result of UK government support for the UK SAF production industry. The proposals contained in the consultation document and the imposition of a levy do not contain this transparency.
- There is also an inherent risk of tankering with the proposed approach to imposing a levy on fossil fuel suppliers. Tankering is where aviation fuel is loaded on an aircraft at another jurisdiction with the purpose of making a double, rather than single flight, in order to avoid increased fuel costs at the original destination. This has the potential to reduce the volume of aviation fuel supplied at UK airports and increases overall GHG emissions due to the higher aircraft weights on the outbound journey. This would be avoided by transparently applying the levy in aviation ticket prices through a similar mechanism to APD or through enhanced air traffic control charges.
- The interaction between the HEFA cap and the introduction of the RCM levy also needs to be carefully considered. As of yet, there is no material existing production of SAF that would qualify above the HEFA cap, and suitable projects are awaiting the outcome of the RCM legislation to approve investment. As a consequence, there

[10] https://www.gov.uk/money/climate-change-levy

will be a delay between approval of the RCM legislation and SAF outside of the HEFA cap being available. The HEFA cap should therefore be phased in line with non-HEFA production coming on-line (resulting in the first RCM payments). Otherwise, there is a risk that obligated suppliers may simply have no alternative than to "buy-out" their obligations due to insufficient non-HEFA SAF being available, with no aviation decarbonisation benefit.

Q5. What further considerations on the proposed approach would you like to raise at this stage?

Links with the SAF mandate:

The SAF mandate only started on the 1st of January 2025, and its effects on the supply of lower carbon aviation fuel are still developing. The impact of the start of the SAF mandate needs to be considered in the development of the RCM.

The start of the UK SAF mandate has been a challenge for obligated suppliers, as they seek to understand the dual requirements for both the mandate itself and the links to the UK Emissions Trading scheme for airlines. This has introduced significant additional reporting burdens on suppliers, and these are likely to increase further in the event that the levy is introduced on fuel suppliers. We note that the link between the current mandate and the UK ETS is still being developed within government.

SAF project concerns:

In addition to our comments in previous questions, we note that there should be a review of the financial payments already made to low carbon aviation fuel suppliers, with a view to establishing if value for money (VFM) has been achieved, as well as the learnings from providing this support. This should ensure that further support is made in the most effective manner.

We note the difficulties in attracting investment in the UK, due to high energy costs [11], significant carbon costs, uncompetitive labour costs, complex and burdensome planning rules as well as high levels of regulatory burden. These should be addressed as part of a wider government strategy on attracting inward investment and may reduce the need for the introduction of an RCM.

We note that SAF producers supported by the RCM could potentially export their lower carbon fuels, giving no benefit to UK fuel supplies or resilience. We would ask that this is clarified in the development of the RCM scheme.

The RCM scheme could be designed to ensure that exports of SAF are not eligible for support by the RCM. It is not acceptable to have the entire output of an RCM supported plant ringfenced from export just because the producer has a contract with the LCCC.

In a similar way, and to create a level playing field, exports of UK produced fossil aviation fuel need to be exempted from the levy.

[11] https://iea.org.uk/were-number-one-in-unaffordable-electricity/

Further SAF RCM levy concerns:

We remain concerned that the WTO concerns raised in the 2024 RCM consultation [12] have not been addressed or answered in the UK government responses so far and ask that this clarification is provided as a matter of urgency.

Transparency in approach is also vitally important, ensuring that aviation passengers are aware of the additional costs they incur as a result of UK government support for the UK SAF production industry.

The UK needs to be seen as an attractive place to invest. While the SAF RCM levy may work for small SAF producers, it may deter wider investment in decarbonisation and should not be looked at in isolation. The overall, wider impact of additional levies needs to be carefully considered and developed in order to avoid this unintended consequence.

SAF reporting burden:

We would encourage that a rationalisation of the reporting and documentation burdens be considered and included as part of the development of the proposals for the second consultation on the detailed design of the levy in order to reduce the considerable burden on aviation fuel suppliers.

[12] https://www.fuelsindustryuk.org/media/211jbzhv/fuels-industry-uk-saf-revenue-certainty-response-final.pdf