Response to Department for Transport consultation on SAF mandate Revenue Certainty Mechanism

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Aviation Environment Federation (AEF) is a UK-based national NGO that focuses on reducing aviation's environmental impact, particularly in terms of climate change, noise and air pollution. Internationally, we are a leading representative of the NGO grouping ICSA (the International Coalition for Sustainable Aviation) which has observer status to the UN's International Civil Aviation Organisation (ICAO). We have an active membership comprising local community and amenity groups living under flight paths and around the UK's airports.

Q21. *Do you agree or disagree with adjusting the Strike Price based on carbon intensity? Please explain.*

Under the right conditions - a production plant with abundant and surplus renewable energy capacity to produce truly green hydrogen, and with a source of captured carbon from the atmosphere (Direct Air capture fuelled only by renewable energy, for example excess off-shore wind capacity in Scotland) - e-fuels will have the best climate outcome and the most potential to scale. Any other fuel pathways must only be a transition to the point where e-fuels are truly sustainable and possible. Therefore, any government incentive scheme should be designed to point all future investment to the ultimate goal of rewarding the most sustainable technology. It is also correct to incentivise the most efficient fuel production processes, so that needless emissions are not lost during the production process. Therefore it makes sense to vary the strike price according to the carbon intensity of the fuel.

However, another way to achieve the same aim would be to hold a second round of contract auctions (AR2) specifically for the fuels which achieve the lowest carbon intensity, for example PtL projects. Another suggestion in the short term would be to adjust the PtL buy-out price under the SAF mandate which is currently much lower than required to avoid the danger that fuel suppliers pay the buyout with no climate benefit.

If the decision is taken to award a different strike price to fuels with lower carbon intensity must also use a symmetrical formula-led mechanism. There should also be a full assessment of their true sustainability during the design of this contract round. This must include actual physical verification of sustainability claims - as suggested in the recent biomass sustainability framework consultation proposed by Desnz. This will be far easier if

the feedstocks are sourced and processed only in the UK, rather than allowing ready-processed or partially processed feedstocks to be imported and then turned into jet fuel in the UK. When tracing sustainability claims over complex international supply chains, it is insufficient to merely rely on default values and reported savings from processes such as ISCC which are known to be flawed and have led to fraudulent imports of “used” cooking oil from Asia. There are double counting and double claiming risks which stem from problems in passing on sustainability certificates along the international chain of custody.

At the same time, the concept of the extent to which a fuel can be truly “carbon negative” must be questioned. Following this logic, it would be possible to argue that producing fuel and burning it in a plane has less environmental impact than not doing that, and by extension, the more you produce fuel and burn it, the better the impact on the climate, which is clearly absurd. Although this may be mathematically correct using the lifecycle boundaries of the LCA approach used, it could lead to the counter intuitive conclusion that we would be reducing emissions more the further we fly, even if the trips are completely pointless (and ignores that two-thirds of aviation’s climate warming to date comes from non-CO2 impacts which have not been factored in).

The first thing to understand about such a result is that it is always based on the assumption that producing and using the fuel in question leads to at least one other GHG emissions benefit in addition to the displacement of fossil fuel use. From the point of view of inventory accounting, the additional GHG reduction beyond 100% is being delivered in another sector of the economy other than transport – maybe in the waste management inventory by avoiding methane emissions, or in the land use, land use change and forestry inventory by increasing soil carbon stocks or in the industrial inventory by delivering carbon capture and storage at an industrial installation. We could think of this as a sort of ‘bundled offset’ – buy fuel produced from short-rotation coppice and get a free offset certificate for the carbon in the trees. It is fundamental to lifecycle analysis to consider a broader scope of emissions than are assessed under inventory systems like the ETS. In that context it is not innately surprising that if transport is going to be held accountable for some emissions in other sectors it might also be given credit for some emissions reductions in other sectors. Nevertheless, this idea of GHG reductions being bundled together and counted into the LCA of transport fuels becomes problematic in the context of policy that values emissions reductions in transport more highly than emissions reductions in other sectors. This is all logically consistent on its own terms, but looking at the issue only through the lens of fuel LCA might obscure alternative regulatory approaches.

Away from the hypothetical, allowing negative emissions credits and rewarding carbon intensity reductions through the RCM also risks that once technologies reach a point where the SAF certificates generated by the negative emissions technology are more valuable than the actual fuel provided, there would be an incentive to provide more of these than actual fuel. Careful consideration needs to be given to the risk of incentivising this above the production of physical SAF to be used in planes.

Q22. *If you agree, what other factors should we consider when designing and implementing an adjustable Strike Price?*

Double sided auctions can be considered as an alternative way to achieving price support for the fuels which qualify as the least carbon intensive (ie e-fuels) - although consideration needs to be given to the motivations of the fuel suppliers who would be footing the bill for the levy, and to what extent they will be willing to breach the gap between more expensive ways of meeting the SAF mandate requirements.

Q36. *Which of these options is most preferrable?*

As SAF production is still in its infancy, we can expect substantial changes and innovations to occur over the 15 year length of these contracts. Allowing new and better technologies to be incorporated through dynamic changes means that we don't get stuck with the least sustainable technologies. In Option A (grandfathering) there is a risk that innovations will be stifled. There is also a risk that fuel suppliers funding the levy will be forced to pay more out over a long period to eventually redundant technologies as non-RCM feedstocks and production pathways fall in cost comparison, and these extra costs will likely be passed on to airline customers through higher ticket prices. Allowing changes further down the line means that more sustainable pathways such as e-fuels will be rewarded. In the case that better technologies and more sustainable fuels become eligible under the SAF mandate, we would suggest Option C, hybrid option would be the best option.

However, there is also a danger that if the sustainability criteria of the SAF mandate loosen, then the first set of AR1 fuels may be unable to compete on cost, and the RCM price differential will be higher. This danger is evident in the fact that the DfT recently issued a call to evidence on the inclusion of crop-based feedstocks into the SAF mandate. At such an early time in the operation of the mandate, with some 2nd generation producers arguing that grandfathering of sustainability rules right now is the best way to get long-term investment, and before any of them have been awarded RCM contracts, it seems illogical to already be suggesting that the sustainability rules of the SAF mandate could be loosened at this stage. It also flies in the face of the important principles being discussed in this consultation about government money and policy signals all aligning to signpost to the most sustainable technologies (e-fuels) and not the least sustainable crop-based feedstocks.

This consultation clearly recognises that an acknowledged barrier to investment decisions being closed is policy uncertainty. Some 2nd generation fuel producers have been frank that mandate volatility and signals that policy may change are the key risk to core bankability. If the rules of the SAF mandate are watered down, grandfathering today's most sustainable option would be preferable to protect against under-cutting on crop biofuels which will likely flood the market with cheap competition. Producers should be eligible to claim QCiL Compensation in respect of incremental costs and lost revenues arising from regulatory changes to these provisions and in the event that the SAF mandate changing or collapsing.

Another possible solution is to offer a second round (AR2) specifically for the least carbon intensive fuel pathways (ie. Ptl), meaning that any future tightening would be applied only to subsequent allocation rounds, rather than retrospectively to signed contracts under AR1. This should also mean no discretionary re-openers and no unilateral adjustment of core eligibility, sustainability thresholds, or other qualifying criteria during the contract term.

Q53. *Do you agree or disagree with the proposed evaluation criteria and weightings for SAF AR1? If disagree, please explain which criteria you disagree with and why.*

Broadly agree, with a preference for more weight to be attached to the carbon savings of a fuel pathway.

As in our answer to Q21, if assumptions are being made at this stage about future carbon reduction potential by technologies or systems which are as of yet untested, there should be a clause in the contract that requires a fresh LCA to be carried out at the time a decision is

made about the change in conditions i.e. projects should not be favoured today on promises of future carbon reduction potential at an unspecified point in the future, without a thorough analysis of the emissions reduction potential, and the deliverability, of the technology when it is ready for use. Also, as with reference to our previous answer, there should be some limit to the use of carbon negative certificates, as taken to the limit this may result in no fuel being produced at all.

In working out the normalised strike price, there are also key questions to resolve about how imported SAF and imported SAF partially processed inputs interact with the certificate issuance. Clear rules should be drawn up about how much of the production process needs to be in the UK for the RCM support to be available. We have highlighted many concerns with the international chain of custody of reporting sustainability claims, and if more of the SAF production process comes from imports, the harder it will be to have confidence that claimed sustainability guarantees are true, and that the risks of double counting have been eliminated. It also risks jeopardising the development of a strong UK-focused industry, and that government support goes to subsidising volumes that do not contribute to SAF mandate delivery. “UK value” outcomes must be clearly defined for what the RCM is intended to support, including treatment of intermediates such as shipping companies and feedstock processors. There should be clear guidance on how UK-based processing and conversion will be recognised in eligibility and/or evaluation, and how partially processed inputs and intermediates are treated to avoid unintentionally subsidising overseas value chains.

Q56. *Do you agree or disagree with the proposed approach to evaluate projects based on normalising the strike price against GHG emission reductions of the SAF produced? If disagree, please explain* why.

It is important to reward the projects which offer the greatest guarantee that sustainability and greenhouse gas emissions reduction criteria have been met - there are possible fuel production pathways which rely on the feedstock having been processed in another country - for example, “green” methanol can be imported from Canada or China and turned into SAF in UK production facilities. There is an inherent danger in this, as it relies on reporting on international chains of custody that the carbon savings did actually occur at the point of production - this is often done by third parties such as ISCC whose processes have failed to pick up fraudulent feedstocks, for example on Indonesian used cooking oil, and castor oil shipments from Kenya. AEF believes that the safest, most sustainable way for these fuels to be produced is in the UK - we believe these FOAK contracts should only be awarded to companies that are processing the feedstock in the UK and not importing ready-made ethanol/methanol and other partially processed inputs from abroad. This will also support the supplementary aim of creating jobs and value in the UK.