

FuelsEurope position on regulatory options to promote a faster deployment of sustainable aviation fuels (SAF) in the EU

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1.0 Summary and key messages

- Since aviation is primarily a global industry, global commitments are preferred over regional initiatives to ensure the competitiveness of the aviation sector and its supply of fuel. The unprecedented impact of the COVID-19 outbreak on the aviation sector has created the need for support to both ensure quick recovery while maintaining the transition to a sustainable aviation sector.
- If the EU desires to implement the use of sustainable aviation fuels then a combination of several policies aiming to promote a faster development and deployment of sustainable aviation fuel are needed. FuelsEurope supports measures on obligations on sustainable aviation fuels targeting volumes, energy, CO₂ emissions or carbon intensity.
- The ability to trade compliance certificates uniformly and across the EU between obligated parties is necessary to allow a cost-effective compliance for all participants involved in the introduction of sustainable aviation fuels.
- Coherence between the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and the EU ETS for aviation should be aimed for to avoid double regulation for international aviation. If free allowances under the EU ETS for aviation are reduced or eliminated, competitiveness safeguards should be provided.
- There may be a need for a number of policy levers to enable the development and investments in sustainable aviation fuels and a practical implementation of sustainable aviation fuels.

1.1 Global demand of liquid fuels and their importance to the aviation sector

The global demand for liquid hydrocarbon products such as fuels for transport, petrochemical feedstock amongst others, is expected to increase until at least 2040¹. These products have an unrivalled energy density making them an ideal means to carry and store energy. While alternatives for some of their current uses are being developed (e.g. in passenger cars, where electrification is expected to play a major role), liquid hydrocarbons remain difficult to replace in heavy-duty transport, marine transport, and the aviation sector as well as for the petrochemical industry. To allow the EU to reach its climate neutrality ambitions, there is undoubtedly a clear need to lower GHG emissions from all transport sectors, whilst aiming to maintain the significant social and economic benefits that aviation sector in particular has enabled.

¹ According to the International Energy Agency (IEA) World Energy Outlook (WEO) 2017, as well as the EU Commission's Clean Planet for All, some specific sectors will continue to be mainly dependent on liquid fuels and products beyond this date.

The COVID-19 outbreak has hit the aviation sector extremely hard in an unprecedented way. Therefore it is important that this sector can regain its economic viability quickly in order to maintain its efforts in the transition towards a more sustainable sector. Support measures to help the recovery as well as the decarbonisation efforts are now more than ever required.

1.2 Global holistic aviation commitments are preferred over regional initiatives

A significant reduction of the CO₂ emissions of the aviation sector will require a holistic approach at global level, incorporating:

- The improvement of the energy efficiency of engines over time, something that is already well underway by the use of increasingly more efficient airplanes.
- The reduction of unnecessary CO₂ emissions in all the operational aspects of flying activities, both on the ground and in the air. (e.g. implementation of Single European Sky).
- The continued growth in the use of sustainable alternative fuels.
- Implementation of global market-based mechanisms like CORSIA.

Since aviation is primarily a global industry, global commitments are preferred over regional initiatives to ensure the competitiveness of the aviation sector and its supply of fuel. To ensure the international competitiveness of the sector, it is essential that all players, airlines, airports and fuel suppliers, be subject to the same measures. If EU-wide initiatives are desired before global aviation CO₂ emission reduction agreements have been agreed, it should at least endeavour to:

- Ensure alignment between the EU aviation policies and global initiatives under consideration.
- Ensure a policy framework that supports investment in SAF production and ensure international support for the EU's use of sustainable aviation fuels as long as other regions have no equivalent measures.
- Develop EU-wide policies to avoid fragmentation of measures across the Union.
- Maintain access for citizens to air transport.
- Focus on policies that incentivise the production and use of sustainable alternative fuels in aviation.

1.3 FuelsEurope position if EU sustainable aviation fuels initiatives are desired.

FuelsEurope supports the introduction of a combination of policies aiming to promote a faster development and deployment of sustainable aviation fuels on all intra-EU flights² with a review to include international flights with an aim to contribute to the reduction of CO₂ emissions from the EU aviation sector under following principles:

- Employ a holistic approach whereby energy efficiency, operational efficiencies next to the use of sustainable aviation fuels all contribute to achieve a lower carbon footprint from aviation.
- Ensure a technology neutral approach meaning that the same regulatory principles should apply regardless of the technology or feedstock used.

² All intra-EU flights are defined as the sum of the national (domestic) flights and the intra-EU flights (between countries of the EU or countries of an extended EU-region)

- Recognize and safeguard international competitiveness. It is essential that the international competitiveness of airlines, airports and fuel suppliers is protected by avoiding the carbon leakage. A proper design of the regulation should avoid that market participants change their behavior to avoid the cost of legislation (tankering).
- Create a market for SAF in a time horizon corresponding to the economic life of the investment. To incentivise SAF it is necessary that investors in low-CO₂ technologies get return on their investments.
- Support well-to-wing CO₂ emission savings considerations to ensure adequate sustainability considerations. Those cover CO₂ emissions from the production and use of fuels and energy accounted for at every stage.

With the right policy framework in place, the EU has the potential to deliver the required SAF needed to enable to reach the EU's overall climate objective. The set of several key regulatory measures to enable the timely development and deployment of SAF could be:

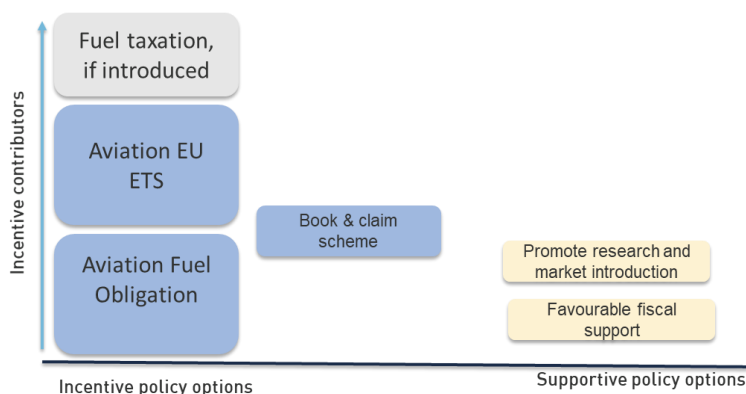
- Fuel obligation fulfilment possible options:
 - Option 1: A Renewable Energy Directive II (RED II) mandate for the aviation sector with temporary incentives under the road transport target to speed up the deployment before 2030:
 - The first policy that could be supported is an uniform sustainable aviation fuel mandate across all Member States (EU-wide) under the Renewable Energy Directive II (RED II) aiming to ensure that a viable, diverse range of sustainable aviation fuel technologies are developed up to commercial scale. This will also promote the diversification and increased availability of feedstocks needed to produce the sustainable aviation fuels commercially.
 - The mandate level must be realistic and achievable. The level of the mandate should take into consideration the flexibility provided in the feedstocks that can be used to make SAF. It is crucial that an as wide feedstock base as possible is needed.
 - The mandate should be set until 2030 by a combination of mandatory values and the review of the 2030 indicative target depending on the progression of sustainable aviation fuels and the global CO₂ emission reduction initiatives.
 - The obligated parties would be both fuel suppliers as well as airline operators under an obligation to supply and to uplift SAF. Exemption from uplifting should be granted if supply is not provided.
 - An ultimate alternative compliance option should be foreseen to avoid incurring excessive cost. It is very important that the ultimate alternative compliance option be set at an EU-level to ensure harmonization and revenues are recycled to enable the large scale demonstration of pre-commercial sustainable aviation fuel technologies.
 - A temporary incentive (until 2030) is proposed to count the use of SAF in the aviation sector towards the road transport sector aiming to accelerate the

- deployment of SAF production. This incentive would replace the current multiplier of 1.2 applicable to the aviation sector.
- Under an intra-EU flights mandate only, the voluntary use of sustainable aviation fuels on extra-EU flights should be promoted by making their use eligible and equivalent to the sustainable aviation fuels used on all intra-EU flights, provided mechanisms are in place to prevent double counting under other schemes (e.g. CORSIA or extra EU national requirements).
 - The sustainability criteria should be based on the Renewable Energy Directive II criteria. Those are more stringent than the CORSIA eligibility criteria. This should be reflected in the level of ambition that could be achieved under this policy option.
- Option 2: The second policy option is the creation of a market for SAF, providing an adequate incentive to fuels based on their well-to-wing (WTWg) carbon footprint. A significant carbon-price signal is essential to unlock investments and innovation in low-carbon technologies and fuels. This could be achieved by a well-to-wing carbon intensity standard for fuels, with the fuel suppliers and airline operators as obligated party:
- The mandate level must be realistic and achievable. The level of the mandate should take into consideration the flexibility provided in the feedstocks that can be used to make sustainable aviation fuels.
 - The mandate should be set until 2030 by a combination of mandatory values and the review of the 2030 indicative target depending on the progression of sustainable aviation fuels and the global CO₂ emission reduction initiatives.
 - An ultimate alternative compliance option should be foreseen to avoid incurring excessive cost. It is very important that the ultimate alternative compliance option be set at an EU-level to ensure harmonization and revenues are recycled to enable the large scale demonstration of pre-commercial sustainable aviation fuel technologies.
 - The sustainability criteria should possibly be defined coherent with the CORSIA sustainability criteria.
 - In case of insufficient supply of low carbon fuels, relieve should be provided to airline operators for not obtaining the aviation fuel carbon intensity standard.
- Also, creating harmonised approaches to develop a single EU market for SAF such as a book and claim method, as well as the ability to trade compliance certificates between obligated parties are needed. Compliance trading should be possible amongst obligated parties since this will contribute to a more cost-effective compliance for all participants of the obligation. It will help to meet the obligation without having to develop small uneconomic supply chains and instead maximize production where there is sufficient feedstock, production and demand.

- If new policy proposals overlap with existing fuel policies (such as the Fuel Quality Directive FQD/7a or the Renewable Energy Directive transport target RED-T) then these should be considered for retirement over a certain transition period.
- Aviation into CORSIA and the EU ETS:
 - CORSIA and the EU ETS should be made coherent:
 - The inclusion of aviation emissions from flights which depart from or arrive in an EU airport in the ETS and the implementation of the ICAO market-based mechanism – CORSIA – as a global tool to achieve the aspirational goal of carbon neutral growth from 2020 onwards are setting a valuable regulatory framework. Global measures like CORSIA have the potential to create a competitive level playing field between EU and non-EU economic actors. In reviewing the design of those two schemes, it is essential to maintain their coherence while ensuring that the competitiveness of both airlines and fuel suppliers is protected.
 - Double regulation of international aviation under both CORSIA and any kind of EU ETS system should be avoided.
 - An additional incentive towards the development and deployment of sustainable aviation fuels could be achieved via the creation of a standalone EU ETS for aviation. This is considered an effective mechanism to incentivise the deployment of low-carbon fuels, in particular when free allowances are reduced significantly or even possibly eliminated completely. However this should occur only under following considerations:
 - It is supported to maintain all intra-EU flights under the EU ETS. This scope should be maintained as long as there is no coherence with the CORSIA system.
 - The reduction of free allocations for the EU aviation sector can be supported provided this reduction in free allowances is accompanied by the establishment of an EU ETS aviation ceiling/buy-out price from the date of significant reduction/withdrawal of the free allowances. Double regulation of international aviation under both CORSIA and the EU ETS should be avoided.
 - Sustainable aviation fuel use should yield an aviation EU-ETS credit consistent with the well-to-wing savings of the sustainable aviation fuel used. This aviation EU ETS credit can be used to show compliance with the aviation emissions to surrender as obligated party under the aviation EU ETS mechanism.
 - In summary, we could support that the EU ETS aviation system evolves towards setting its own market compliance price limited by the ceiling price associated with the reduction of the free aviation allowances.
 - If several transport sectors would be elected to form part of a separate EU ETS system, then it is required to assess whether it is not desirable to put those transport sectors under a common, specific EU ETS transport system.

- Additional sustainable aviation fuels deployment and development could be incentivised via fuel taxation. If taxation of aviation fuels is introduced it should be used smartly and should be aimed at directly incentivising the use of sustainable alternative fuels. If the EU would consider aviation fuel taxation it should contain at least an element related to the combustion carbon intensity of the aviation fuel used. Sustainable aviation fuels should be exempted as a means to drive the deployment of sustainable alternative fuels.
- We are of the opinion that part of the revenues from several aviation related policies could be used to support for development and the production of sustainable aviation fuels as well as for the accelerated deployment of sustainable aviation fuel supply logistics.
- A policy framework to provide a favourable fiscal support framework may be needed. This may be justified as the technology and supply chains for sustainable aviation fuels are not fully developed and so for the first plants will be expensive. In order to get initial projects up and running, to learn by doing, direct tangible support may be needed, and the terms for this initial direct support need to be sufficiently firm, e.g.:
 - Capital grants.
 - Investment tax credits.
 - Loan guarantees.
 - Tendered volumes by either Governments, airlines or airports using a contract for difference approach.
 - Provide reduced landing fees for aircraft using sustainable aviation fuels.
- Research and support for market introduction and sustainable aviation fuels is needed:
 - Funding for research and market introduction of sustainable aviation fuels should be mobilized.

All the above measures and incentives would contribute to the deployment of sustainable aviation fuels as represented in the graph below.



FuelsEurope, the voice of the European petroleum refining industry

FuelsEurope represents with the EU institutions the interest of 40 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales.

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