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Insights

SUSTAINABLE AVIATION FUEL IN THE UK: IS SAF TAXIING OR HAS IT GOT SUFFICIENT THRUST FOR TAKE-OFF?

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Summary

The UK's Sustainable Aviation Fuel (SAF) Mandate has created strong demand for SAF, but domestic production remains limited and the primary obligation was missed. The Revenue Certainty Mechanism (RCM), now underpinned by the Sustainable Aviation Fuel Act 2026, is intended to de-risk investment in First-of-a-Kind (FOAK) UK SAF production and bring forward Final Investment Decisions. In July 2026, the Department for Transport published its Contract Allocation Strategy for the first RCM allocation round (SAF AR1), confirming a tendered bid process with bilateral negotiations, a target of up to 230,000 metric tonnes of annual SAF capacity supported, and an indicative timeline running from pre-launch engagement in Q4 2026 through to contract award in Q4 2028. This article considers what these confirmed details mean for producers and investors. SAF production in the UK is still taxiing, but it’s off the stand and close to the runway.

SAF: an introduction/recap

The UK Sustainable Aviation Fuel (SAF) Mandate is the UK government's core regulatory mechanism to decarbonise aviation fuel, given legal effect by the Renewable Transport Fuel Obligations (Sustainable Aviation Fuel) Order 2024, which came into force on 1 January 2025.

The SAF Mandate has two obligations. Its primary obligation is to set the overall SAF requirement at 2% of the total aviation fuel supplied in the UK in 2025. This obligation increases on a linear basis, reaching 10% in 2030 and 22% in 2040. It appears that the primary obligation was not achieved in 2025 (achieving 1.6%, 20% short of the mandatory target). There is a strong argument that this failure is driven by a lack of available SAF – investment in the production of SAF is becoming increasingly important.

The secondary obligation of the SAF Mandate is a specific power-to-liquid obligation, set to be introduced in 2028, whereby power-to-liquid fuel (with a fuel production pathway from renewable sources, water and carbon dioxide, not HEFA) must make up 0.2% of total aviation fuel demand,

reaching 3.5% in 2040. This secondary obligation is important to promote the transition away from conventional waste-oil fuels (i.e. HEFA) to innovative green technologies (furthering net zero goals). HEFA is also subject to a cap of 71% by 2030 and 35% by 2040.

The UK government has made it clear that: "*both obligations will include a buy-out mechanism. This will provide a method of compliance where suppliers are unable to secure a supply of SAF. The buy-out prices are set at a level to encourage the supply of SAF over the use of the buy-out and effectively set a maximum cost for the scheme, thereby delivering GHG emissions reductions at an acceptable cost.*"

For further background on SAF, please see our previous article on the transition to greener aviation through the use of Sustainable Aviation Fuel.

How are SAF difference payments to be funded?

The difference payments made to producers under the Revenue Certainty Mechanism (RCM) are funded by a variable levy imposed on suppliers of fossil aviation fuel. Following consultations on levy design in March, October and January 2026, the government published its response to the first levy consultation and a second levy consultation in June 2026, with the levy design still being finalised alongside the SAF Bill's passage into law (the Sustainable Aviation Fuel Act 2026, which received Royal Assent on 5 March 2026). For SAF AR1, covering up to 230,000 metric tonnes per year of SAF over assumed 15-year contract terms, the government's indicative modelling suggests levy-funded difference payments of up to c. £3 billion where SAF market prices sit at the lower end of the assumed range, switching to net payments from producers to the government of up to c. £1 billion where prices are at the higher end. Under a downside scenario, where a price discovery mechanism does not operate effectively, and SAF is sold at a floor price, difference payments could reach c. £7-8 billion. However, the government has stressed that strike, reference and floor prices have not yet been finalised and that costs cannot be estimated with precision given the current uncertainty in future SAF market prices.

Investing in SAF production projects: challenges and government support mechanisms

There is a definite deficit in the supply of SAF – demand outstrips supply, and this should incentivise investment. However, unmet demand is not, alone, sufficient to bring about sufficient investment in SAF production projects. SAF production involves innovative technologies in a nascent industry, and mechanisms are needed to both finance early-stage development and to de-risk commercial-scale projects sufficiently to make them bankable for debt investment.

On the first of these challenges, the previous Advanced Fuels Fund and its replacement Low Carbon Fuels Fund (which has £93m available to accelerate the production of SAF in the UK) prioritize financing (by way of capital grants) advanced FOAK commercial and demonstration-scale

facilities and covering pre-Front-End Engineering Design (FEED) and FEED stages of development. In one sense it can be argued that these funds are looking to bring projects to a stage where they can bid for RCM agreements (see further below).

On the second of these challenges, the government is finalising a Revenue Certainty Mechanism (RCM) agreement, now underpinned by the Sustainable Aviation Fuel Act 2026 (which received Royal Assent on 5 March 2026 and provides the legislative powers to implement the RCM and its associated levy). At a high-level, this is a private law contract with a government counterparty which is, in effect, a contract for difference where if the (market) reference price is below the agreed strike price then the price is 'topped up' to the strike price – 'guaranteeing' an agreed price for SAF sold, de-risking price uncertainty and providing a bankable revenue stream in which financial institutions can invest debt (thereby reducing the cost of capital/WACC from an investment perspective). Conversely, where the reference price exceeds the strike price, the producer 'pays back' the government counterparty. Contracts are anticipated to run for 15 years – and the terms of the RCM agreement are anticipated to be substantially similar to other low-carbon incentive mechanisms (such as the Low Carbon Hydrogen Agreement, the renewable Contract for Difference (CfD) and CCUS mechanisms).

RCM agreements will be awarded through allocation rounds (substantially similar to other UK government low carbon initiatives) and the UK government's strategic objectives for the first allocation round are to: (1) scale FOAK UK SAF production to commercial scale; (2) provide value for money and (3) prioritise speed of deployment (simplifying this last objective, the government is looking for 'shovel-ready' projects). Given the limited pipeline of sufficiently developed projects, the UK government has confirmed that a tendered bid process with bilateral negotiations – rather than a purely price-based mechanism such as a sealed-bid auction – will be used for SAF AR1. This is not without precedent: the UK government negotiated 'investment contracts' with initial CfD counterparties (through the FIDeR transitional mechanism), and this contributed to the effective development of an efficient and liquid CfD market. The government has indicated that it is considering a transition towards price-based mechanisms, potentially including sealed-bid auctions, for future allocation rounds once cost certainty and pipeline maturity improve.

Sitrep: what is the current position on SAF usage in the UK?

Despite the introduction of the SAF Mandate, domestic production capacity remains limited and the 2025 target appears to have been missed. Currently, the only commercial-scale SAF production facility in the UK is the Phillips 66 refinery in North Lincolnshire (with annual SAF production of up to c. 20,000 metric tons). Other projects in development are at various pre-FEED and FEED stages, with projects in areas such as Port Talbot and Cheshire but significantly a relatively large number of projects around the East Coast Cluster CCUS project, including Alfanar's Lighthouse Green Fuels project in Teesside, which is perhaps the most progressed commercial-scale SAF production project in development in the UK, having completed FEED stage.

The Department for Transport's July 2026 Contract Allocation Strategy confirms that SAF AR1 pre-launch engagement sessions will run from Q4 2026, with the application window opening from Q1 2027, shortlisting from Q4 2027 and contract awards from Q4 2028. SAF AR1 is expected to support multiple contracts totalling up to a maximum of 230,000 metric tonnes per year of domestic SAF production capacity, subject to affordability and value for money, and applicants will generally be expected to evidence a credible pathway to completing commissioning by the end of Q1 2033.

The government has confirmed it will not ringfence support for specific technologies or feedstocks (including Power-to-Liquid (PtL)) within SAF AR1, although portfolio factors may be applied at shortlisting or contract award stage to manage delivery risk and technology diversity; it has indicated it may reconsider ringfenced PtL support for the second allocation round (SAF AR2), which is expected approximately one year after SAF AR1 contracts are awarded and at a larger, more technology-diverse scale.

As the UK SAF market continues to evolve, BCLP's multidisciplinary team is experienced in advising on the regulatory, commercial, financing and project development issues that will be critical to successfully delivering the next generation of SAF projects.

Related capabilities

- Oil, Gas & Sustainable Fuels
- ESG & Energy Transition
- Energy Transition

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