UK Emissions Trading Scheme: Treatment of Sustainable Aviation Fuel consultation

Summary

- The logistics sector is committed to reducing its emissions, but aviation presents specific challenges and is therefore, particularly hard to decarbonise.
- Given SAF is the key pathway to decarbonise the sector, government support is needed to help increase uptake.
- Logistics UK supports the expansion of the fuel eligibility criteria to beyond biofuels.
- Logistics UK agrees that ultimately, policy should work to ensure the UK ETS sustainability criteria should align with the SAF Mandate sustainability criteria.
- However, given the current cost and fuel market challenges, Logistics UK supports the retention of zero rating as a short-term position, while there remains such a significant cost differential between conventional jet fuel and SAF. In the longer term, it supports a shift to a lifecycle approach which will help to incentivise higher impact SAF.
- Logistics UK therefore supports a combination of policy packages 1 and 2.

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About Logistics UK

Logistics UK is one of the country's largest business groups, and the only trade association which represents all of logistics. Our mission is to support, shape and stand up for a safe, sustainable and efficient logistics sector. Our membership of more than 22,000 includes global, national and regional businesses and SMEs spanning road, rail, waterways, sea and air freight, in ports, airports and warehousing, as well as the customers of freight services such as retailers and manufacturers. We deliver services, representation and thought leadership, helping members and policymakers to seize new opportunities for the sector and the economy as a whole, right across the country.

The logistics sector

Nothing moves without logistics. The sector employs 8% of the UK workforce in good jobs with strong career progression, contributes £175 billion in GVA each year, and underpins the resilience of the everyday economy.

Logistics plans and coordinates the movement and storage of the goods that businesses, public services and households rely on – using ports, airports, roads, railways, waterways, warehouses and smart digital systems to tie it all together.

With the right policies, logistics can drive up UK growth by £8 billion a year.[1] However, rising costs, red tape and poor infrastructure are holding the sector back – putting firms out of business, fuelling inflation, and undermining productivity and supply chain resilience. As a result, the UK has fallen from 4th to 19th in the World Bank Logistics Performance Index over the decade to 2023.

Consultation response

Logistics UK welcomes the opportunity to respond to this consultation on behalf of our membership. The logistics sector is committed to decarbonising, but specific challenges exist for aviation meaning the

[1] Logistics Delivering a solution to the UK's productivity puzzle, Oxford Economics, 2023

Sustainable Aviation Fuel (SAF) market and wider policy landscape must help to maximise emissions reductions.

As the consultation sets out, SAF is one of the key opportunities to decarbonise this logistics mode as whilst it is not zero emission, it makes significant greenhouse gas (GHG) emissions savings across its lifecycle, with the potential to achieve over 70% emissions reductions when compared to fossil kerosene. Therefore, the market must be established, with appropriate legislate infrastructure to help maximise uptake.

Overall, Logistics UK welcomes the recent government steps taken to increase SAF production and use, including the creation of the SAF Mandate and commitment to develop a Revenue Certainty Mechanism.

Eligible fuel types

All SAF eligible under the SAF Mandate should be eligible under the UK ETS for claiming emissions reductions. Currently, only biofuels are recognised in the UK ETS, eligible fuel types should be expanded to recycled carbon fuels and power to liquid fuels, to help encourage all viable options to decarbonise. Given the critical need to decarbonise and challenges around zero emission flights, industry supports the promotion of all viable options – adopting a technology agnostic approach. Also, given recycled carbon fuels and power to liquid fuels are eligible for incentives under the SAF Mandate and are eligible under the EU ETS, the UK ETS should align its position on eligible fuel types.

Sustainability criteria

Logistics UK agrees that ultimately, the sustainability criteria should align with the SAF Mandate sustainability criteria. The UK ETS SAF eligibility rules should be updated so that SAF eligible for an emissions reduction claim would need to comply with the SAF Mandates sustainability criteria, outlined in schedule 1 of the SAF mandate Order.

How emissions reductions from SAF are recognised

In the long term, Logistics UK supports the transition to a proportional lifecycle assessment model, using a GHG emissions savings threshold that should be compared to fossil kerosene, to help incentivise higher impact SAF and align with the SAF Mandate.

However, given the unprecedented price increases as a consequence of conflict in the Middle East and the current domestic production of SAF, the market is not yet ready to transition to a lifecycle assessment model. There is a significant cost implication of SAF no longer being zero rated and therefore we support the retention of zero rating as a short-term position, while there remains such a significant cost differential between conventional jet fuel and SAF. Whilst a lifecycle approach will help to incentivise higher impact SAF, the market is not yet where it needs to be and we therefore call for the price support mechanism of zero rating to remain live.

Therefore, we support a combination of policy packages 1 and 2. It is important that as the market evolves, there is alignment between the UK ETS and UK SAF Mandate criteria and that eligible fuels are maximised and expanded beyond biofuels, particularly as technologies evolve. However, there are concerns that due to the wider fuel market, moving to a lifecycle approach at this stage, and away from zero rating is too soon.

Further considerations

The SAF market remains at an early stage of development, and recent instability in the Middle East has driven unprecedented price increases that are now cascading through supply chains. While the logistics sector is committed to decarbonisation and recognises SAF as a vital tool for reducing aviation GHG emissions, immediate challenges around cost and fuel availability must be taken into account. It is essential that any mechanisms introduced by government avoid creating unintended negative impacts in what is already a highly pressured operating environment.

Although the consultation does not address air quality, it is important to note that SAF use can deliver air-quality benefits, and this should be factored into policy design.

These issues must also be viewed through the lens of UK competitiveness. Policy should ensure a level playing field between UK and EU operators, and cross-departmental coordination will be critical to avoid penalising operators that are actively pursuing the most sustainable options.

Contact:

Katie Adams, Policy Manager

Kadams@logistics.org.uk