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Thursday 20th June, 2024

BritishAmerican Business Reponse to Open Consultation: Sustainable aviation fuels revenue certainty mechanism: revenue certainty options

We are writing in response to the Department for Transport's consultation on the Sustainable Aviation Fuels Revenue Certainty Mechanism to support the Sustainable Aviation Fuels (SAF) industry in the UK. This submission supports and does not supersede individual submissions made by BAB member companies.

BritishAmerican Business (BAB) is the leading US-UK transatlantic trade association, incorporating the British-American Chamber of Commerce in the US and the American Chamber of Commerce in the UK. We are committed to strengthening the economic corridor between the US and the UK, and support policies and actions that enhance the environment for transatlantic trade and investment on behalf of our members.

BAB believes that business input on the topic of SAF is fundamental and is pleased that industry has been given the opportunity to feed into the proposed introduction of a revenue certainty mechanism. As transatlantic businesses across the supply chain look to their net zero roadmaps, the expansion of the SAF industry is integral to all sectors. BAB welcomes the chance to provide feedback from industry with experience of revenue certainty mechanisms for different energy sources, building on our further facilitation of the transatlantic SAF conversation over the past year. BAB supports the implementation of a revenue certainty mechanism.

Section 1: Strategic case

1. Do you agree with the rationale for implementing a revenue certainty mechanism? If not, why not?

Yes.

BAB supports the implementation of a revenue certainty mechanism, in line with the three reasons outlined: that it will promote economic growth both regionally and nationally; secure SAF supply; and promote UK global leadership of the SAF market.

Supporting the necessary conditions for investor confidence in further establishing a domestic UK SAF industry has huge potential for promoting economic growth and attracting foreign, particularly US, investment. The UK tax environment and business costs are currently viewed as the most unattractive asset to US businesses, we found in our most recent survey on US investor confidence into the UK market. If the UK is to become a more attractive destination for US investment, supporting markets like SAF, which has a quickly growing global demand, is an integral part of this.

Section 2: Scope

2. Do you agree or disagree that HEFA-based SAF should not be covered by the proposed revenue certainty mechanism? Please provide supporting evidence.

We recognize the reasons outlined as to why it has been argued that HEFA should not be covered by the proposed revenue certainty mechanism. HEFA is already a commercially viable fuel source. It is also limited in scope given its use its higher economic value in other industries including the pet food and automotive sectors. However, given existing production and use, a solution to improve project developer confidence with large-scale investments in HEFA plants must also be found. We recommend a continued dialogue with industry to find a solution to incentivize project developers to invest further into the readily available fuel market, expanding the supply of more carbon-efficient fuels and making possible industry's ability to reach the mandate.

A mixture of continued grant funding, a mandate, revenue certainty mechanism, book and claim models, and wider incentives is integral to tackling the SAF supply issue.

Section 3: Revenue certainty mechanisms

3. Do you agree with our explanation of the Guaranteed Strike Price mechanism? Is there anything else we need to consider?

In principle, we agree with the explanation of the Guaranteed Strike Price mechanism (GSP). With similar designs in use of other energy and fuel industries, the implementation of a GSP provides business continuity and clarity in understanding the mechanism. A consistent strike price also strengthens clarity to business, making investments into the SAF sector transparent, and easier to interact with.

We recognize that the GSP likely wouldn't be in effect until Q4 2026 earliest, and urge both the delivery of this mechanism, and the progressing of the SAF mandate, to be prioritized within the legislative process to ensure both combined can help deliver the necessary SAF market, and so hard-to-abate sectors have the opportunity to reach its net zero targets in a shorter timeframe. Although other suggested mechanisms have shorter implementation periods, the necessity of providing a revenue certainty mechanism to the SAF sector quickly must be balanced with choosing the effective mechanism for the industry in the longer-term.

Given the longer timeframe, government should support businesses with progressing contract allocations in parallel with moving the necessary legislation for the mechanism through parliament so that contracts can be signed, and the mechanism can be utilized from the moment it is implemented.

Additionally, whilst a revenue certainty mechanism goes through its legislative process, government support and consideration of SAF infrastructure, including airport fuel capacity for SAF or book and claim or certificate models, and improving the availability of SAF across airports across the US, UK, and globally must be considered in parallel.

Section 4: Options assessment and conclusions

9. Do you agree or disagree that the certainty required by the investment community is best achieved through a private law contract between a producer and Government (or Government backed counterparty)? Please provide supporting evidence where possible.

Agree.

The current requirement to use a private law contract between a producer and government provides certainty as a trusted actor that is worthy of assuming the counterparty risk is essential to bring in external finance through investor confidence in the counterparty.

10. Do you agree or disagree that the GSP should be the preferred option to consider developing of the two private law contract options? Please provide supporting evidence where possible.

GSP is the preferred option to consider developing, and we fully support its implementation. There is however a concern that there is potentially little incentive to operate beyond the mechanism.

A potential route to rectify this would be to limit GSP to a maximum 80% of a producer's supply. This would allow equity investors to achieve a share in the upside, in the event that the reference price exceeds the strike price, whilst also enabling the discovery of a credible reference price that is directly SAF-related.

Annex A: Detailed contract considerations

11. Are there any other key elements of any revenue certainty mechanism contract that need to be considered?

We accept the consultations assumption that the revenue certainty mechanism will be industry funded, yet at present, the specific route to financing has not been heavily considered. The mechanism may be a key component to promote financial confidence to ensure newer investors and smaller businesses enter the SAF market. However, the mechanism is not necessarily a requirement for larger businesses already heavily investing in SAF. Therefore, the mechanism should not negatively distort the existing SAF market, requiring established investors to pay a higher price.

For example, efforts should be made to guarantee that the funding of the mechanism does not heavily burden the fuel suppliers. Active industry collaboration around the funding design should be prioritized. Recognition of the negative consequences of relying solely on one funding route may adversely affect investor confidence in the SAF supply chain. This includes through fuel supplier taxes and/or levies; using ETS revenue; or using air passenger duty revenue, to name a few.

Although there is wide support across the SAF market to expand supply, this should not come at the cost of risking existing SAF supply chains.

Additionally, the revenue certainty contract in its current form (figure 7) on the consultation does not include development costs. Full development costs for projects should be recognized through a post-construction review with a comparison of expected costs to actual costs. Having this review will ensure that completion risks are minimized, and 'race-to-the-bottom' competition for contracts do not continue to dominate.

12. Are there any other considerations that project developers will need to take into account?

As projects for SAF are major infrastructure energy developments, sufficient timescales must be available to complete projects. A 15-year timescale is required for an appropriate length of time from contract signing to completion for a comprehensive view of total project costs.

13. Are there any other considerations that should be taken into account by the contract funder?

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14. Which contract allocation method is most appropriate? Why?

Bids for contracts should be balanced with a clear eligibility criterion on who can bid for contracts in the first instance. Large-scale infrastructure projects are often faced with 'race to the bottom' contract bidding processes, leading to underestimations of full developmental costs. Recent failures to complete large scale infrastructure projects have negatively impacted investor confidence in financing projects. We recommend that government supports business by recognizing the difficulties the industry is facing by providing comprehensive criterion to be able to bid for SAF production contracts.

15. Do you agree that this is the most appropriate way to administer a revenue certainty mechanism?

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16. Do you have any views on the most appropriate counterparty?

The Low Carbon Contracts Company (LCCC). As touched upon in response to question 9, use of this established government owned private company may help to bring in external finance through confidence and certainty from investors.

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BAB welcomes and supports DfT’s efforts to address investor confidence of SAF through the implementation of a revenue certainty scheme. In turn, this will ultimately strengthen the UK’s domestic SAF market, strengthening its fuel security whilst supporting national net zero legislative ambitions in the longer-term.

We hope this submission is helpful. We remain open to any questions and further engagement.

Duncan Edwards, CEO

Emanuel Adam, Chief Policy and Trade Officer