Features

Assessing SAF in the UK

The regulatory framework for SAF has transitioned from policy design into full operation, now with binding trades, compliance guidance and producer support mechanisms. A diverse group of market participants – including airlines, fuel suppliers and commodity traders – are navigating an evolving commercial and regulatory landscape. Traders are key participants and play a role in achieving compliance with the SAF regulatory framework, managing price risk and providing routes to market for SAF producers. **BY NICHOLAS NEUBERGER**, partner, **ADAM BLYTHE**, partner and **RACHEL STRICKLAND**, associate at **BRACEWELL (UK) LLP**.

The UK sustainable aviation fuels mandate came into force on January 1 2025, making the UK one of the first countries in the world to legislate for mandatory SAF requirements. The mandate applies to fuel suppliers, principally the major fuel companies and distributors who deliver fuel to airports and who supply at least 468,000 litres of aviation turbine fuel in the UK per year. The mandate imposes a volume-based blending obligation, requiring a minimum proportion of SAF within the total aviation fuel supplied: 2% in 2025, rising to 10% by 2030 and 23.7% from 2040.

To qualify as SAF, the fuel must achieve a minimum greenhouse gas emissions reduction of 40% relative to a fossil fuel comparator, as verified to the administrator within the Department for Transport. Compliance operates through a certificate-based system: suppliers that demonstrate eligible SAF supply receive certificates issued in proportion to the level of GHG emission reductions achieved, and the obligation can then be met through physical supply, SAF certificate trading, or payment of a buyout price.

Within the overall obligation, a cap on the use of HEFA-derived SAF will be set at 92.31% in 2027 falling to 35% in 2040. It is anticipated that this will preserve headroom for more advanced and sustainable fuel technologies to develop including power-to-liquid SAF, which are synthetically produced liquid hydrocarbons. A separate sub-target for PtL also applies, reflecting the nascent state of that technology: starting at 0.2% in 2028 and rising to 4.48% by 2040.

Market structure

The UK SAF market brings together a range of participants at different points in the supply chain, each with distinct commercial objectives and regulatory exposure.

Producers of SAF range from established energy supermajors, with integrated refining capacity to early-stage developers advancing nascent technologies such as PtL. The capital intensity and long development timelines associated with SAF production, particularly for non-HEFA pathways, mean that producers face significant financing and offtake risk, making long-term commercial arrangements a commercial necessity.

Airlines are the end users of SAF and, while they are not directly obligated under the mandate, are significant market participants. Recently, longer-term offtake agreements are being agreed between major airlines to lock in multi-year deals to secure supply to ensure compliance with rising mandate targets. Airlines also increasingly use SAF procurement as a tool for managing their own emissions reporting and sustainability commitments.

Commodity traders act as intermediaries across the supply chain, providing aggregation, logistics, financing, and risk management services. The trading houses are playing a major role in connecting producers with end-user markets and enabling commercial structures that can underpin new production investment.

For the purposes of the SAF mandate, obligated fuel suppliers are the parties with direct statutory responsibility under the mandate. This principally means fuel suppliers, however the certification scheme has introduced participants who trade SAF certificates in order to manage their compliance positions, which has created a secondary market in compliance instruments alongside the physical SAF market.

Regulatory developments

The SAF (Revenue Support Mechanism) Bill was announced in 2024, proposing a revenue certainty mechanism (RCM) for SAF producers investing in UK-based production facilities. The RCM is intended to reduce revenue volatility and so facilitate the project development and bankability of UK SAF production projects and incentivise achieving the SAF targets. Following consideration of a number of funding options, the UK Government confirmed in January 2025 that a guaranteed strike price is its preferred mechanism, where producers would receive the difference between the strike price and the reference price, which is broadly, a market price, where the reference price falls below the strike price.

Indicative heads of terms for these private RCM contracts between the producers and government counterparty were released by the DfT for consultation in January 2026. They provide for a fixed 15-year contract term and price terms that are similar to those in the existing UK contracts for difference scheme. The associated consultation raises two key issues for consideration: (i) the appropriate interim arrangement for establishing the reference price for non-HEFA SAF (until a market price is established once it matures); and (ii) the appropriate structure and eligibility criteria for the allocation rounds.

The DfT aims to finalise and bring into force the RCM by the end of 2026.

The role of traders in the SAF market

Traders occupy a structurally important position in the UK SAF market, performing functions that neither producers nor airlines are optimally positioned to perform for themselves.

SAF producers, particularly early-stage developers of non-HEFA or PtL pathways, often lack the established

commercial relationships, logistics infrastructure and market presence needed to access airline or fuel-supplier demand directly. Traders bridge this gap, providing producers with a route to market without requiring them to develop bilateral relationships with each end user.

Individual SAF production facilities (particularly those using non-HEFA or PtL pathways) may produce volumes that fall below the minimum thresholds required for delivery to an airport or for a meaningful compliance position to be built. Traders pool volumes from multiple producers, aggregating supply across producers, pathways and geographies to meet minimum delivery or uplift thresholds and to construct the blended parcels that obligated suppliers and airlines require.

The SAF market is characterised by significant price, volume and timing uncertainty – reflecting the nascent state of many production technologies, the volatility of feedstock costs, and the unknown timescale for mandate targets (which would drive demand). Traders are better able to manage these risks on behalf of both producers and airlines: providing producers with price certainty through fixed-price or formula-priced offtake agreements and providing airlines with volume certainty through supply commitments. Traders with positions across multiple production pathways and jurisdictions are also able to manage buy-out exposure and manage the trading of certificates.

More broadly, traders can offer prepayment, inventory financing or trade credit support to early-stage producers, who often lack access to conventional project finance. This can serve as an immediate funding bridge between production investment and the long-term revenue certainty, until the proposed Revenue Certainty Mechanism is settled and implemented.

Key commercial issues involving traders

While the terms of the SAF agreement will often be commercially distinct and bespoke to the parties, certain market terms for SAF sales and purchases are emerging.

First and foremost, SAF must be precisely defined to ensure a certain basis for what qualifies as compliant fuel. Typically, this closely reflects the applicable regulation or governing law. The SAF mandate provides a definition for sustainable aviation fuel which parties in the UK often adopt. This may be further specified to cover applicable thresholds or verifications, for example, with the minimum greenhouse gas savings thresholds required for the SAF to qualify under the relevant mandate or offtake arrangement. Again, the SAF mandate includes a fossil fuel comparator value in which SAF can be universally judged against.

Similarly, the fuel quality has a detailed specification. Often this will identify which feedstock categories are accepted and which are excluded, whether by reason of regulatory prohibition, such as food and feed crops, or by mutual commercial agreement.

On the commercial side, the agreement must address the firmness of volume commitments. Are volumes fixed and binding, subject to agreed tolerances; or structured on a flexible, or take-or-pay basis, with appropriate consequences for shortfall or excess delivery?

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Pricing provisions can be more detailed than typical product sales arrangements. Interestingly, fixed price structures that provide cost certainty often remain price-indexed to a recognised benchmark (such as the Platts or ICIS jet fuel assessments or published SAF price indices), or formula-based mechanisms that reflect movements in feedstock costs, carbon prices, or blending premiums.

Responsibility for certification schemes and their compliance must be clearly allocated between buyer and seller, with explicit provisions addressing ownership, transferability, and the risk of double counting. This may include how mandate shortfalls are managed, and whether any regulatory penalties or compliance costs are capable of being passed through under the contract. Given the rapidly evolving regulatory landscape, parties often consider material adverse change and change-of-law provisions in long term contracts, to manage the risks of unforeseen shifts in the applicable standards.

Looking ahead

The guaranteed strike price model represents a pivotal development for the UK SAF market. However, significant questions remain as to how it will operate in practice, particularly in relation to the trader offtake structures that have rapidly become a defining feature of the UK market. For example, how will strike price payments be structured where the producer’s counterparty is a trader?

More broadly, recent global developments and the sharp rise in aviation fuel prices mean that, should such conditions persist, the SAF mandate’s ability to withstand external pricing pressures may be increasingly tested. Although the RCM will be funded by aviation fuel suppliers, these costs will inevitably be passed through to airlines and, where they cannot absorb them, ultimately to passengers. Over time, the political willingness to impose additional SAF-related costs indirectly onto consumers, against a backdrop of broader global price increases, may be tested under public and political pressure.

As the SAF mandate ramps up towards its 2030 and 2040 targets, further tightening of sustainability criteria and feedstock rules appears likely – whether driven by domestic policy evolution, alignment with international standards, or pressure from the broader regulatory environment. For parties negotiating SAF sales agreements, this underlines the importance of well-drafted definitions, precise feedstock specifications, and robust change-of-law provisions capable of absorbing future regulatory shifts without reopening the commercial bargain. Traders, in particular, face heightened exposure given the range of feedstock sources and production pathways across which they typically operate, and will need to ensure that their contractual arrangements provide adequate flexibility or appropriate price adjustment mechanisms. ■