Department for Transport

Government response to the consultation on the Sustainable Aviation Fuel Revenue Certainty Mechanism levy design

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Contents

Ministerial foreword

The Government is committed to delivering greener transport and securing the aviation industry's long-term future. A UK Sustainable Aviation Fuel (SAF) industry is critical to this future. It will support the delivery of emissions reductions through the SAF Mandate, help drive growth, and provide good green jobs across the whole of the UK.

The revenue certainty mechanism (RCM) will play a key role in developing the UK SAF industry, helping producers secure the investment they need to ramp up SAF production in the UK – in turn helping kickstart economic growth and make Britain a clean energy superpower. We are working at pace to deliver the RCM, but it is important that we get it right.

Since the last levy design consultation, the Government has taken important steps to progress the RCM, including:

- Obtaining Royal Assent for the Sustainable Aviation Fuel Act, which provides the powers to implement the RCM, including the ability to make the Levy Regulations this consultation relates to.
- Consulting on the indicative Heads of Terms and approach to contract allocation, providing more detail and consideration on how the scheme will work as a whole.

Aviation fuel suppliers play a critical role in the UK aviation fuel supply chain, acting as a key link between fuel production and delivery to aircraft. Airlines are vital for our economic prosperity, connecting passengers and businesses domestically and globally. It is important, therefore, that we design the levy so that it works for industry and ultimately air passengers.

This document sets out the Government's preferred position on specific design features of the Aviation Fuel Supplier Levy, which will fund the RCM, as proposed in a first levy design consultation. It is being published alongside a second levy design consultation, which seeks further industry views to finalise the design of the scheme at pace.

I am grateful for the input and expertise of those who have contributed to the design of the regulations to date, and I look forward to working with industry to ensure that we are designing SAF policy in a way that unlocks the benefits of decarbonisation for the whole of the UK.

Keir Mather MP

Executive summary

This document sets out the Government's response to feedback received from stakeholders on the Department for Transport's proposals for the design of the Aviation Fuel Supplier Levy put forward via a public consultation in October 2025.

Section 1 addresses how the levy will operate in practice, including how individual supplier contributions are calculated, the frequency and sequencing of assessment and collection periods, forecasting arrangements, and how uncertainty will be managed.

This section sets out the Government's preferred position to use existing SAF Mandate volume reporting processes to determine individual aviation fuel supplier contributions and confirms that the Aviation Fuel Supplier Levy will only apply to suppliers meeting the minimum supply threshold of 15.9 terajoules (TJ) or more of aviation fuel per year. The Government has launched a second consultation alongside this response to seek views on whether levy contributions should be calculated using total aviation turbine fuel volumes rather than just the fossil fuel element.

This section also sets out the Government's position to collect the levy monthly, with further consultation on the design and frequency of the forecast levy rate. The Government also confirms that it will require the counterparty to publish forecast and actual costs. The Government is consulting further on collecting the reserve via a single forecast levy rate and returning over-collected sums by offsetting such sums against future forecast levy rates.

Section 2 addresses the **administration of the levy,** including arrangements to manage supplier default and the compliance and enforcement framework. This section outlines the Government's view that credit cover will be required from aviation turbine fuel suppliers as the primary mechanism to manage default risk. Suppliers will be required to provide credit cover quarterly, in the form of cash, standby letters of credit, or a combination of both.

The Government confirms that mutualisation will be retained as a backstop measure, to be used only as a last resort where credit cover and reserve funds are insufficient. Compliance and enforcement powers will be provided to the counterparty, including the ability to issue notices of non-compliance, pursue unpaid levy amounts, and report publicly on compliance and enforcement activity.

Section 3 sets out next steps for the progression of the levy, confirming that the Government has published a second levy design consultation alongside this response to seek further views on outstanding design questions, including the methodology for determining individual contributions, reserve arrangements, and forecast levy rate design.

Glossary

Assessment Period: The timeframe used to determine suppliers' aviation turbine fuel volumes for Aviation Fuel Supplier Levy calculations.

Aviation Fuel: Transport fuel used in all aircraft of end-use, or for use in testing engines for use in such aircraft. It does not include detergents, cetane improvers, lubricity improvers, viscosity improvers, oxidation inhibitors, gum inhibitors, anti-corrosive preparations and similar substances intended for fuel additives.

Aviation Fuel Supplier Levy: A variable levy imposed on relevant suppliers of aviation fuel to fund the Revenue Certainty Mechanism (RCM).

Avtur (Aviation Turbine Fuel): A type of aviation fuel which consists of heavy oil within the meaning of section 1(4) of the Hydrocarbon Oil Duties Act 1979 of which more than 50 per cent by volume distils at a temperature of 240 degrees centigrade or less; which is to be used as a fuel for aircraft and which meets one of the following standards:

- ASTM International standard D1655 (as revised or re-issued from time to time)
- Ministry of Defence standard 91–091 (as revised or re-issued from time to time)
- or a standard that is equivalent to either of the standards mentioned above

Billing Period: The period over which eligible RCM-supported SAF is produced and sold by RCM producers and RCM scheme costs are therefore incurred. This period is distinct from the period over which payment is made to RCM producers.

Counterparty: The designated Government-owned entity responsible for administering the RCM, and the Aviation Fuel Supplier Levy.

Duty Point: The point at which aviation fuel leaves the import facility, refinery or warehouse.

Fossil Aviation Fuel: Kerosene-based jet fuel produced from fossil sources (e.g. petroleum hydrocarbons), compliant with specification standards.

Greenhouse Gas (GHG): Any gaseous constituent of the atmosphere, whether natural or anthropogenic, that absorbs and re-emits infrared radiation and contributes to the greenhouse effect.

HEFA (Hydroprocessed Esters and Fatty Acids) SAF: A common SAF production pathway using oils and fats.

Levy Regulations: Secondary legislation made under section 6(1) of the Sustainable Aviation Fuel Act 2026 (c. 9), which will require suppliers of aviation fuel to pay a levy to the counterparty and set out how the levy will be determined, administered and enforced. Making the Regulations will be subject to full Parliamentary procedure.

Power-to-Liquid: Energy-derived aviation fuel, namely sustainable aviation fuel of non-biological origin (such as nuclear sources or renewable sources, other than biomass, and is not made from biofuels or a carbon source that has been generated for the purpose of converting it into a fuel for use in aircraft) which is aviation turbine fuel.

RCM (Revenue Certainty Mechanism): UK Government scheme that aims to support investment confidence by offering revenue certainty for SAF producers, helping scale UK production and deliver GHG savings under the UK SAF Mandate.

Sustainable Aviation Fuel (SAF): A low carbon alternative to conventional jet fuel, derived from sustainable feedstocks.

SAF Act 2026: Primary legislation made in 2026 enabling the implementation of the RCM and associated Levy Regulations.

SAF Mandate: UK Government regulatory obligation requiring aviation fuel suppliers to supply a minimum proportion of SAF into the UK market.

SAF certificates: Awarded tradeable certificates with a cash value based on the lifecycle greenhouse gas savings of the supplied SAF under the SAF Mandate. These are redeemed to meet the aviation fuel supplier’s obligations every year.

Standby Letters of Credit: A bank’s guarantee of payment to a third party if its client fails to fulfil a contractual obligation.

Introduction

This document summarises the responses received to the consultation on the Sustainable Aviation Fuel (SAF) Revenue Certainty Mechanism (RCM) Levy Design. It does not attempt to capture every point made, nor does it seek to cover comments on aspects of policy that fall outside the scope of the consultation. This document sets out the Government's preferred position on certain aspects of the RCM levy design and the changes it intends to make to its proposals in response to the main points raised in the consultation. Where the Government is not proposing to make changes, the reasons are explained. In response to some of the points made, the Government has chosen to consult again. This document makes it clear which aspects of the RCM levy design are undergoing further consultation, via a second consultation that has been published alongside this response.

Stakeholders responded to the consultation questions via online survey and email. Where respondents did not structure their responses around the specific questions posed, responses have been considered by reference to the consultation question or position that they were most applicable to.

Responses to each of the consultation questions were analysed individually, before being grouped into themes, then summarised and anonymised. Responses that did not explicitly express their support or disapproval for the specific question were logged but classified as neither supportive nor non-supportive. Where information provided by a respondent related to a different question to the one answered, this was summarised under the relevant question.

The following terminology is used throughout this document:

- 'majority' indicates the view of more than 50% of respondents to that question
- 'minority' indicates the view of fewer than 50% of respondents to that question
- 'about half' indicates an overall response within a few percentage points of 50% (either way)
- 'many respondents' indicates more than 70% of respondents to that question
- 'a few respondents' means fewer than 30%
- 'some respondents' refers to the range in between 30% and 70%

The Government recognises that some respondents queried some of the terminology used in the consultation such as "relevant aviation fuel" and the inconsistency between terms used in the RCM levy consultation and the SAF Mandate Legislation in the consultation.

We would therefore like to clarify that reference to “relevant aviation fuel” in the first levy design consultation refers to fossil avtur, non-SAF portions of partial-SAF, and other aviation fuels not meeting SAF sustainability criteria.

We have provided summary tables of responses for each question where relevant, i.e. where a yes/no answer was sought, or a range of options was given. For some yes or no questions there was the option of adding an accompanying qualitative response. Qualitative responses have been reviewed, regardless of whether respondents answered the yes or no question. Some respondents provided evidence on wider themes but not related to a specific question in the consultation. Nevertheless, if the points themselves are not addressed in detail in this document, the responses provided have been taken into consideration.

Responses received

A total of 26 responses were received from a range of organisations and individuals. The summary contained in this document describes the key themes set out in responses. For the sake of brevity, it does not repeat the full details contained in every response.

The following table provides a breakdown of those who responded. Certain organisations have multiple roles in the sector and have been assigned to the most appropriate stakeholder group based on their primary operations or the framing of their response.

Stakeholder group	Number of respondents
Airlines	6
Feedstock supplier	1
Aviation fuel supplier	5
Other	3
SAF producer	2
Trade association/body/coalition	9
Total	**26**

1. Operation of the Aviation Fuel Supplier Levy

Calculating individual contributions

Consultation proposal

Section 2 of the consultation (Operation of the Aviation Fuel Supply Levy), set out the Government's intention to determine individual supplier contributions relative to their market share of fossil aviation turbine fuel supplied in the UK over a defined period. The consultation proposed that market share would be based on the volumes of fossil aviation turbine fuel ('avtur') supplied and that volumes would be determined based on existing reporting via the SAF Mandate reporting system (ROS).

The consultation also proposed introducing a minimum threshold for the Aviation Fuel Supplier Levy of 15.9TJ of aviation fuel (equivalent to approximately 468,000 litres of avtur) or more per year, to align with the threshold for the SAF Mandate, and that fuel suppliers who supplied volumes below this level should be exempt.

The consultation sought views on these proposals via three questions which concerned the use of existing volume reporting processes to determine levy contributions, the minimum threshold for the levy, and potential exemptions.

Question 1

Do you agree or disagree with suppliers submitting data to the SAF Mandate reporting system for determining relevant aviation fuel volumes for the purpose of the levy and why?

Summary of responses

Total	Agree	Disagree	Don't know / No Comment
26	16	3	7

Many respondents that answered this question agreed that the counterparty should use the data suppliers submit via ROS to determine aviation fuel volumes for the purpose of the levy, as this approach would minimise the burden of additional reporting, avoid duplication of existing reporting processes, and ensure consistency with SAF Mandate compliance.

Some respondents suggested that levy calculations should be determined based on the total aviation fuel volume supplied (including the SAF component in addition to the fossil aviation turbine portion). Of these respondents, a few also suggested that the levy calculation should be determined at the point of supply to airports as opposed to at the duty point. Several reasons were provided:

- respondents highlighted the significant time required **to verify the split between sustainable and fossil aviation fuel volumes** and considered that extending the levy to cover total aviation fuel volumes supplied (including SAF) could support more efficient and timely volume verification
- due to the **complexity of the supply chain**, including trading between fuel suppliers, some respondents highlighted that there would be a difference between the volume of fossil aviation turbine fuel leaving the duty point and the volume of aviation turbine fuel delivered to customers
- there are currently **two different reporting periods for the SAF Mandate**. Volumes can either be reported at the end of each calendar month, or mid-month to align with HO10 reporting[1]. Some respondents highlighted the risk that volumes reported to ROS would not result in a total snapshot of market share which is comparable within an assessment period

One respondent sought clarity on the definition of "relevant aviation fuel volumes" and further specificity on the point in the supply chain at which fossil aviation fuel volumes would be measured. A few respondents noted that further clarity regarding the data reporting processes would be helpful.

Question 2

In your view, is the current level of assurance on SAF Mandate reporting data sufficient for accurately determining individual levy contributions?

Summary of responses

Total	Yes	No	Other	Don't know / No Comment
26	10	2	3	11

Of those who responded to this question, the majority agreed that the current level of assurance on SAF Mandate reporting data is sufficient for accurately determining levy contributions. Some respondents noted that the existing third-party verification process provides reasonable assurance, and a few respondents also noted the importance of

[1] HO10 reporting refers to the process whereby businesses report and pay excise duty on fuel removed from a warehouse using HMRC's HO10 form. Suppliers are not legally required to report aviation volumes to HMRC via HO10s, but many choose to do so voluntarily.

ensuring alignment with the SAF Mandate requirements. Some respondents suggested that additional verification requirements would place an unnecessary burden on aviation fuel suppliers. One respondent also noted the potential costs to air passengers, should additional verification requirements be imposed, due to increased compliance costs for suppliers. A few responses suggested that the assurance process should remain under review as SAF volumes increase over time.

Some respondents suggested other options. One respondent proposed that consideration should be given to scheme-specific assurance rules for levy calculations and that the Government should specify the minimum level of assurance and permitted verifiers for levy calculations.

The two responses which disagreed sought further clarification on the process for determining individual contributions, including data requirements and further consideration of the location where aviation fuel is sold for the purposes of determining the levy calculation, as described in Question 1.

Question 3

Do you agree or disagree with the minimum threshold for the levy, and should any other exemptions apply?

Summary of responses

Do you agree or disagree with the minimum threshold for the levy?

Total	Agree	Disagree	Don’t know / No Comment
26	15	2	9

Should any other exemptions apply?

Total	Yes	No	Don’t know / No Comment
26	1	6	19

All but two respondents that answered this question agreed with the proposed minimum threshold for the levy, citing reasons that included that such an approach would minimise administrative burdens and complexity, and ensure consistency with the SAF Mandate requirements.

A few respondents suggested mitigations to prevent avoidance. Proposals included the inclusion of an anti-avoidance clause in the Levy Regulations to prevent suppliers splitting volumes to fall beneath the minimum threshold and case-by-case consideration (for example, for new entrants) with strict time-limited safeguards. One respondent suggested that the threshold should be periodically reviewed as the aviation fuel market evolves.

Of those who disagreed, one respondent suggested that determining levy contributions based on the volume of fuel delivered to airports may avoid the need to have a minimum threshold in practice.

Many respondents did not propose any further exemptions. One respondent suggested that specific activities, such as military fuel supply, humanitarian flights, other flights classed as “emergency”, and research and development activity should be exempted.

Government response to questions 1 to 3

The majority of respondents agreed with using the existing volume reporting process via ROS to determine individual levy contributions. The Government remains of the view that this would be the most effective way to determine individual supplier contributions as it removes the administrative burden of having to undertake additional reporting while ensuring consistency with SAF Mandate requirements and agrees that the current level of assurance on SAF Mandate data reporting is sufficient for determining individual levy contributions.

Section 2.3 of the consultation set out that both the counterparty and the Secretary of State will have powers to request information from suppliers for the purposes of determining individual levy contributions. We will engage with industry to ensure volume reporting data is comparable, while managing any additional administrative burden where possible.

The Government remains of the view that the minimum threshold for the Aviation Fuel Supplier Levy should align with the SAF Mandate, which would obligate those relevant parties supplying aviation fuel totalling 15.9TJ or more of aviation fuel per year. It is also of the view that there should be no further exemptions.

The Government recognises the calls for further consideration and detail regarding how individual levy contributions would be determined and has published a second consultation alongside this response, seeking views on the use of total aviation fuel volumes to determine individual calculations, including the associated verification timelines for these options.

Government decision: To consult further on the options to determine volumes for the purpose of determining individual levy contributions.

Government decision: To align the minimum threshold for the levy obligation with the SAF Mandate threshold and that this will be the only exemption for the levy.

Length & frequency of the assessment period and collection period

Consultation proposal

The consultation proposed that the most administratively simple approach would be to align the frequency of the levy assessment and collection periods. Four options of differing frequency were assessed and set out in Table 1 within the consultation document**.**

The consultation sought views on three questions regarding: the options assessment, the alignment of the assessment periods and collection cycles, and on the most appropriate frequency for the assessment period and collection cycle.

Question 4

Do you agree or disagree with the options assessment summarised in Table 1?

Summary of responses

Total	Agree	Neither agree nor disagree	Disagree	Don’t know / No Comment
26	13	2	2	9

Many respondents that answered this question agreed with the options assessment.

A few respondents disagreed with the “high risk” assessment for forecast accuracy under an annual assessment and collection period, noting that the UK does not experience significant fluctuation for demand of jet fuel on an annual basis. One of these respondents also noted that the administrative costs and potential payouts based on contracts between producers and the counterparty should be predictable enough to not be considered “high risk”.

A few respondents noted differences between the aviation fuel sector and the electricity sector (for which a similar scheme operates), citing that there were fewer suppliers and alternative arrangements for market access which they considered made longer-term frequencies more appropriate for aviation fuel.

Some respondents suggested a number of other considerations which could be used to inform the frequency assessment, including the administrative burden to verify volumes, the impact of future demand shocks, impact on the wider aviation market, and the potential cost impacts of the scheme (including the costs of administrating the scheme) for air passengers. One respondent also noted that the contracting process between suppliers and airlines should be taken into consideration.

Question 5

Do you agree or disagree with aligning the frequency of assessment periods and collection cycles?

Summary of responses

Total	Agree	Neither agree nor disagree	Disagree	Don't know / No Comment
26	12	1	4	9

Many respondents agreed that the frequency of assessment periods and collection cycles should be aligned, with respondents noting that such an approach would support transparency across the supply chain and reduce complexity. One respondent noted that such an approach would need to account for the time required to verify volumes.

A few respondents also suggested that the setting of such a rate could by decoupled from the levy collection frequency. One respondent specifically suggested an annual assessment period, with monthly collection, as it considered that this would provide more certainty and align with existing commercial arrangements, while supporting cashflow and minimising risks of supplier default.

One respondent also suggested that the counterparty should retain the ability to rapidly modify future levy rates in the event that the market becomes disrupted or volatile.

Question 6

Which assessment period and collection cycle frequency do you think is the most appropriate for the Aviation Fuel Supplier Levy and why?

Summary of responses

<u>Assessment Period</u>

Total	Annual	Quarterly	Quarterly or Monthly	Monthly	Daily	No response / No clear view
26	4	4	4	5	0	9

Collection Cycle

Total	Annual	Quarterly	Quarterly or Monthly	Monthly	Daily	No response / No clear view
26	0	4	4	9	0	9

All but a few respondents preferred either a quarterly or monthly assessment period and collection cycle, providing reasons which included that this would support cost forecasting accuracy, cashflow, reduce the impact of supplier default, and align with existing data reporting. No respondents favoured daily assessment period or collection cycle.

Some respondents expressed a preference for a longer assessment period, through the publication of a pence per litre levy rate, to promote stability and align with commercial cycles, with more frequent levy collections to support cashflow and minimise the impact of default.

Some respondents suggested that the counterparty should retain the ability to adjust frequency as the scheme matures.

Government response to questions 4 to 6

The Government agrees that aligning the frequency of the assessment and collection periods would be the most administratively straightforward approach. It also recognises that a longer-term forecast levy rate could provide greater certainty and stability. The Government agrees that a monthly collection cycle would support cashflow, mitigate the risk of supplier default and align with existing data reporting, and that quarterly or monthly assessment periods would support greater accuracy in forecasting costs of the scheme. Recognising the points raised within the responses, the Government has published a second consultation regarding the frequency at which the counterparty sets a forecast levy rate.

Government decision: To collect the levy on a monthly basis to align with existing data reporting and business payment cycles, support cashflow, and mitigate the risk of supplier default, subject to further consultation on the frequency of the forecast levy rate.

Sequencing of assessment, collection and billing periods

Consultation proposal

The consultation sought views on the sequencing of the assessment period, the collection of the levy, and the billing period. It proposed two different options:

- an **aligned approach**, whereby the assessment period matches the billing period, and forecasts are used to determine market share

- a **lagged approach**, whereby the assessment period is set earlier than the billing period and the market share of a supplier is determined based on actual data

The consultation asked three questions seeking the views of respondents on their preferred option, alternative approaches, and their preferences for the final settlement timeframe.

Question 7

Which approach would you prefer for the sequencing of the assessment, collection and billing periods and why?

Summary of responses

Total	Aligned	Lagged	Other	Don't know / No Comment
26	1	11	4	10

The majority of respondents that answered this question preferred a lagged approach on the basis that it would remove the risk of forecast error and provide greater certainty. Some of these respondents also noted the importance of timely reconciliation and/or minimising the impact or necessity to reconcile.

A few respondents proposed the build-up of a buffer ("a reserve fund") to accumulate funds in advance of producer payments and that this should be collected based on actual data which could remove the requirement to reconcile and enable the publication of actual levy rates.

Some respondents articulated the importance of having sufficient information to understand annual costs up-front, to improve certainty and cost predictability, including cost pass-through.

One respondent suggested that the collection period should lag the billing period by a quarter, which they considered would provide three months for invoicing and payment in the subsequent quarter.

One respondent suggested the annual assessment of costs, collected on monthly data based on prior month actuals, with quarterly reviews to reassess costs and account for under- or over-collection.

One respondent proposed an aligned approach to provide early clarity on levy exposure and allow smoother cost pass-through. They suggested that a lagged approach would increase uncertainty through prolonged uncertainty and increased risk of delayed data corrections.

Question 8

Are there any other alternative approaches that should be considered?

The majority of respondents did not propose any other alternative approaches. A few respondents noted that the Government should consider hybrid operational rules for exceptional events, and suggested there be clear definitions for cut off dates and governance arrangements to ensure fairness as suppliers enter the market.

Some respondents reiterated their desire for fairness, transparency and a fixed pence per litre rate on aviation fuel supply, based on the counterparty's forecast of total costs required for the year and projected aviation fuel demand, which is implemented in advance of RCM-supported SAF being produced to build up a reserve fund ("buffer").

A few respondents suggested that the levy should be charged as an annual amount up front.

Question 9

What is your preferred position on the timeframe for the final settlement of a billing period reconciliation exercise and why?

Summary of responses

Some respondents fundamentally disagreed with the principle of reconciliation, suggesting that such an approach would reduce certainty and transparency, as aviation fuel suppliers could be entirely exposed to the cost with limited ability to recover. As such, it was suggested that aviation fuel suppliers may need to include contingencies within fuel pricing to mitigate this potential shortfall.

Some respondents suggested that the build-up of a buffer would remove the need for reconciliation. One respondent suggested that reconciliation should only be allowed for volumetric misstatements and that the pence per litre rate should not be retrospectively changed.

Some respondents advocated for the shortest feasible timeframe for final settlements, to reduce uncertainty, minimise cashflow impacts, and promote fare stability. A range of suggestions were put forward regarding the acceptable timeframe for the final settlement, ranging from 6-9 months, 12 months or less, or 18-24 months.

Government response to questions 7 to 9

Reconciliation is carried out for all similar existing schemes. It ensures that obligated suppliers only pay for the actual volumes that they supply and the actual costs incurred. The purpose of the Aviation Fuel Supplier Levy is solely to fund the costs of the RCM scheme, and the Government does not intend to indefinitely raise funds through the levy.

As the counterparty must collect the levy before it knows the actual costs of the scheme, the costs and/or levy rates must always be forecast. Reconciliation ensures that only the funds required to cover the costs of the scheme are taken and, under the SAF Act, the counterparty can only place a levy on suppliers to enable it to meet the cost of payments under RCM contracts and other costs incurred under the Act, such as administrative costs. Reconciliation also ensures that Government can balance income and expenditure for the scheme and protects against any data reporting errors.

The Government recognises the uncertainty that reconciliation brings and the desire for transparency. The updated proposals found in the second consultation seek to minimise the impact of reconciliation creating material additional payments and the flow of payments to and from suppliers.

In the second consultation, the Government is consulting on several design features:

- to build up the reserve prior to the production and selling of RCM-supported SAF, collected via a single forecast levy rate
- to rollover the reserve provided by suppliers across financial years
- to return or collect reconciled amounts via the amount of reserve that is ultimately held in respect of each supplier

Regarding the timeframe for final determinations, should the Government proceed with levying suppliers based on the volume of fossil aviation turbine fuel supplied, which was the indicative position in this consultation, the longest possible timeframe for final settlements would be approximately 20 months for January volumes, though December volumes could be determined within 9 months. This is because the split between the volume of fossil aviation turbine fuel and SAF is only confirmed when SAF Mandate certificates are issued by mid-August the following year. The Government is consulting further on how individual supplier contributions are determined, which could reduce the timeframe by which volumes are verified for the purpose of the levy.

The final determination period will also need to provide sufficient time for RCM-supported SAF to be verified and a window to resolve any disputes raised over determinations.

Government decision: The Government has published a second consultation seeking further views on the exact process by which a forecast levy rate could be set, how the levy and reserve will be collected (including the potential build-up of a buffer), and how final costs are to be reconciled. Final decisions on the timeframe for final determinations will account for these design elements.

Forecasting

Consultation proposal

The consultation proposed that levy forecast periods set by the counterparty should be 12 months on the basis that forecast periods longer than this risked being too inaccurate to prove useful, particularly due to the emerging nature of the SAF market. The forecast could also show a monthly breakdown of anticipated costs that could be updated on a rolling monthly basis. As the scheme matures and the SAF market develops, the forecasting periods could be reviewed and amended by the counterparty who will produce forecasts and publish them on their website.

Four questions addressed this proposal. These asked for information on the types of decisions organisations use forecasting for, whether they agreed with the 12-month proposal, what frequency forecast updates should take place and what should be in the forecasts.

Question 10

What types of decisions would your organisation use the forecast to support?

Summary of responses

9 of the 26 respondents did not answer this question. Of the respondents who did, all but one stated that forecasting would be used for business planning purposes. Business planning purposes included references to:

- cashflow planning and tracking of actuals
- calculations for SAF uptake and feedstock upper limits
- negotiation of supply agreements and tendering

- procurement decisions
- accrual for levy payments
- being able to anticipate costs to pass through to customers such as via airline ticket pricing
- deciding whether certain services going to/from the UK are financially viable

A few respondents reiterated their preference for a ‘pence per litre’ levy rate and noted that in that scenario forecasts would not be required. A few respondents noted that if market share was used for the calculations, it would be important for the calculations to be transparent and simple to reduce market uncertainty and fare volatility for passengers. It was noted by one respondent that this is particularly important as fuel is the largest operating cost for airlines. Two respondents noted that forecasts could give confidence to SAF investors that the RCM will be available, as projects move towards operation.

Question 11

Do you agree or disagree with the proposal to publish a rolling 12-month forecast?

Summary of responses

Total	Agree	Neither agree nor disagree	Disagree	Don’t know / No Comment
26	12	1	3	10

Many of the respondents who answered this question agreed with the proposal for the counterparty to publish a rolling 12-month forecast. Some respondents noted 12-month forecast period would avoid excessive speculation and enable better planning and risk management for suppliers, and more accurate internal forecasts for airlines, and that the forecast must be updated regularly. Some respondents noted forecast inputs must be clear and accessible throughout the supply chain to ensure effective pass through from suppliers to airlines and therefore air passengers.

Of those that responded that they disagreed with the proposal, in two instances this was because they believed a ‘pence per litre’ levy calculation should be used, which in their view would provide greatest cost transparency through the publication of single levy rate and therefore limit the necessity for forecasts. One of the respondents that disagreed stated that they agreed with forecasts in principle, but disagreed with the proposed duration, suggesting instead that forecasts should be available 24-months in advance to accommodate for fuel supply contract designs and levy obligation periods.

Question 12

In your view, how frequently should the forecast be updated to ensure it remains useful for your business planning needs?

Summary of responses

Total	Quarterly	Monthly	Other	Don't know / No Comment
26	6	5	5	10

Of those that answered this question, more respondents were in favour of quarterly forecasts than monthly forecasts. Many respondents noted the need to balance accuracy and timeliness with potential market volatility and administrative burden. A few respondents noted considerations must be made regarding communication of the forecast levy rate, particularly where this might tie into annual contracts and procurement.

Of the respondents that did not state quarterly or monthly forecasts as their preference, four reiterated their view that a 'pence per litre' levy rate would avoid the need for forecasts, and one respondent was of the view that the forecasts should be published as often as needed.

Question 13

What vital information, if any, would you want to see in the forecast?

Summary of responses

10 respondents did not answer this question. Of the 16 respondents that did, some noted the importance of transparency of the forecast calculations and for the information provided to be detailed to avoid confusion and ensure confidence in costs to airlines being passed through to air passengers.

Examples of the type of information respondents suggested to be included in the forecast included:

- overall RCM scheme costs, total levy rate and changes to total scheme costs over the forecast period, including reconciliation rates or revised levy payments
- summaries of RCM progress, including anticipated payouts to contracted producers, the percentage of the target within the SAF Mandate achieved and forecast total UK volumes supplied
- operational cost components, for example administrative costs, levy balance, and forecast reserve level

- detail or guidance regarding the assumptions and methodology underpinning the forecasts, for example aviation fuel demand, policy or regulatory changes, reference pricing
- upon publication, including a short narrative of changes since previous forecast, and how forecasts compared to actuals, and/or other data trends. This would need to take into consideration what might be commercially sensitive, and include other caveats, for example forecasts being estimates only

Government response to questions 10 to 13

The publication of forecasts and actuals data by the counterparty play a critical role in supporting fairness and transparency by clearly outlining how levy rates are determined and how those costs are expected to evolve over time. Overall, many respondents agreed with the Government's proposal for the counterparty to publish a rolling 12-monthly forecast as part of the SAF Aviation Fuel Supplier Levy design where every month the counterparty publishes a forecast for the following 12 months, on the condition that the forecasts are transparent and allow for effective pass through to airline passengers as a result. Many respondents suggested that forecasts should be updated either quarterly or monthly to be of most use for business planning.

The Government is minded for the counterparty to publish all forecast and actual values of total costs and volumes, as well as the amount of reserve collected, to provide transparency regarding the costs of the scheme. Where information is not commercially sensitive and to the extent it is able to do so, the Government intends to require the counterparty to provide information on underlying assumptions and methodology informing the forecasts.

The Government agrees that the provision of forecasts by the counterparty must balance the desire for certainty and transparency with accuracy and will ensure that final decisions on the frequency will align with the setting of the forecast levy rate and in doing so, will consider how the correct balance is struck between long-term certainty and accuracy.

Government decision: To require the counterparty to publish forecast and actual data within specified notice timeframes for transparency purposes. Final decisions on forecast frequency are intended to align with the design of the forecast levy rate which we are consulting on further via a second consultation.

Managing uncertainty

Consultation proposal

The consultation set out that the levy must be calculated and collected based on forecasts of the scheme costs and reconciled when actual data becomes available to enable the counterparty to recover the costs of the scheme before they are incurred to stay solvent.

The consultation sought views on two questions regarding how the counterparty should mitigate the risk of **under-collection** and presented the option of either a single-period or multiple-period reserve. The consultation also invited opinions on three questions regarding preferred approaches to returning **over-collected** sums which included options to offset those sums against future invoices, return funds directly to suppliers, or a hybrid approach of both.

Under-collection

Question 14

What is your preferred option as a means of mitigating under-collection risk and why?

Summary of responses

Total	Single period reserve	Muti-period reserve	Other	Don't know / No Comment
26	2	12	2	10

Many of the respondents who answered this question preferred a multi-period reserve because:

- it would reduce volatility and the need for emergency collections
- a longer reserve period would spread payments and risk and provide greater protection against fluctuations
- it would support levy stability by reducing the probability of large adjustments having to be made to levy rates and avoid swings in pass-through costs to air passengers
- this approach was more flexible than a single reserve and could accommodate delays in SAF production
- it would provide more predictable cash flows

Some respondents cited that a multiple-period reserve could lead to larger spikes in fuel costs and higher up-front costs, compared to a single period reserve. Some respondents suggested measures to limit the total cost of the reserve, including a reserve cap.

A few respondents expressed a preference for a single-period reserve, suggesting that it would provide liquidity without the need for excess capital outlay. One respondent, however, commented that single period cash flows could potentially result in higher risk premiums.

A few respondents commented more generally on the need for clarification of the reserve and how this would be implemented in practice, including what would happen if the buffer price was exceeded, the frequency of collection and what contingency plans were proposed.

Question 15

Should other approaches to mitigating under-collection be considered?

Summary of responses

Total	Yes	No	Other	Don't know / No Comment
26	5	2	5	14

Some respondents suggested the use of alternative funding sources, such as revenue generated from the UK Emissions Trading System, the purchase of buy-out certificates or from insurance backed guarantees.

A few respondents stated their preference for the creation of a multi-period buffer, collected in advance of RCM-supported SAF production. They suggested that this could be collected via a single 'pence per litre' levy rate, which could be adjusted to account for under- or over-collection.

Over-collection

Question 16

In your view, which option do you prefer as a means of managing instances of over-collection and why?

Summary of responses

Total	Rolling over and netting off	Returning over-collected sums	Hybrid approach	Don't know / No Comment / Other
26	11	0	5	10

The majority of respondents that chose one of the three proposed options were in favour of the 'rolling over and netting off' option, with the remainder supporting the 'hybrid approach' option. Regardless of their preferred option, many respondents considered that it was important for the over-collection management process to be fair, transparent and simple.

Some of the respondents that favoured rolling over and netting off stated that the other options proposed would risk surplus funds not being passed through to passengers and many respondents also commented on the practical challenges of ensuring cost pass-through. Some respondents suggested that rolling over and netting off would be simpler and reduce the administrative burden on aviation fuel suppliers. A few respondents suggested that over-collected amounts should be offset against future levy rates and that there should be transparent enforcement obligations to ensure suppliers pass through savings to airlines and their passengers.

One respondent considered that the return of over-collected funds should only be by exception in cases where a supplier exited the market or where there was under-delivery of supported SAF RCM projects. This sentiment was shared by a few respondents that suggested that there is a need to include reporting and enforcement provisions within the Levy Regulations to maintain fairness for airlines and passengers. A few respondents also noted that refunds should be issued if aviation fuel suppliers exited the RCM scheme.

Other suggestions put forward by respondents included proposals similar to ‘netting off’ but with adjustments to future levy rates, or reiterated views that that the levy should be expressed as a ‘pence per litre’ rate with an associated buffer.

Question 17

What, in your view, is the most efficient way to ensure that over-collected amounts and surpluses are passed through to end users?

Summary of responses

Of the 16 responses received for this question, some respondents made suggestions to aid the process of returning over-collected amounts via legal obligations for suppliers to pass funds back to airlines, and for airlines to pass funds back to air passengers, with these credits clearly itemised on invoices to support audit trails. This included suggestions of a guarantee from the counterparty that savings from over-collection will be passed through to airlines and not retained by aviation fuel suppliers, and that the counterparty should be zero-rated for tax purposes.

Some respondents called for transparency and enforcement requirements in the levy design requiring over-collected funds to be repaid to suppliers, and the reporting of cost pass through. This would include information regarding levy costs, surpluses and distributions to be made publicly available, with transparent reconciliation statements. Furthermore, some respondents would like there to be provisions in the Levy Regulations to prevent retention of large surpluses by the counterparty, as well as regarding surpluses to be passed on at the end of the RCM and/or when RCM contracts expire, or a mechanism to reduce levy collection in the instance of the surplus total having reached a capped limit.

Accounting mechanisms were also suggested by some respondents to ensure the automatic pass through of over-collection via adjustments in the next levy cycle, or as soon as possible. Rather than a blanket rule, a few respondents considered that the return of over-collection should be managed on a case-by-case basis for non-standard circumstances as suppliers cannot discuss passing on costs under competition law. One respondent suggested that suppliers could be incentivised to pass through returned fund savings through alternative means, such as via additional development, research and innovation investment.

Question 18

What, if any, other comments do you have on how over-collection and counterparty surpluses should be managed?

Summary of responses

Of the 15 respondents who answered this question, the majority considered transparency and clear communication of the rules regarding surpluses and over-collection return processes (including methodology and timing) to be key design factors. Some respondents noted their preference for a capped reserve fund and offset against future liabilities to be administered by an independent body, such as the counterparty, alongside transparency obligations & enforcement powers.

Some respondents stated a preference for the levy to be designed with either assurances or enforcement powers to ensure that any over-collected funds be returned to suppliers and then be passed through to airlines, through to savings for air passengers. This would also help air passengers to have clarity on what they are being charged under the levy.

One respondent suggested that surpluses could alternatively be put forward to fund innovation in the SAF market, although others noted their view that any buffers should only be used to fund the RCM as per the levy design intent. A few respondents suggested the levy design should include provisions for the repayment of over-collection when suppliers exit the scheme and when the RCM scheme closes in the future.

Government response to questions 14 to 18

Under-collection

The Government recognises the desire of some respondents for the levy to be collected as a single transparent levy rate, with a pre-collection period to build up the reserve, and acknowledges the desire expressed by some respondents for greater clarity on how it is proposed that the reserve would operate.

Government decision: To consult further to seek views on the specific mechanism through which the reserve is collected and the option to pre-collect the reserve prior to the production of RCM-supported SAF.

Over-collection

The Government agrees that over-collected sums and surpluses should be returned by offsetting those amounts against future liabilities, to support the pass-through of costs through the supply chain. The Government acknowledges some calls for these amounts to be returned via the reduction of future levy rates, recognising that such an approach could promote cost pass-through and transparency.

Government decision: To consult further on the optionality to offset over-collected amounts against future forecast levy rates, with the reconciliation process ensuring that suppliers receive the benefits of that reduced levy rate fairly.

2. Administration of the Aviation Fuel Supplier Levy

Managing supplier default

Consultation proposal

The consultation proposed credit cover and mutualisation as two contingency mechanisms to enable the counterparty to collect alternative funding in the event of a supplier default to avoid a situation where there are insufficient funds to make payments to RCM-supported SAF producers.

Credit cover refers to collateral, guarantees or insurance that are required to ensure that a supplier's financial obligation will be met, even if they fail to pay.

The consultation sought views via four questions on how frequently credit cover should be provided by aviation fuel suppliers, whether cash, standby letters of credit or a mix of both would be acceptable forms of credit cover, and the approach which should be taken towards returning excess credit cover and accrued interest on credit cover.

As set out in the consultation document, **mutualisation** refers to the process of spreading the cost of a supplier default across the remaining participants of the scheme. It is a financial backstop that it is proposed would only be used when the credit cover held by the counterparty and/or amount of reserve is insufficient to fully cover the outstanding liabilities.

The consultation sought views via three questions concerning the concept of mutualisation, additional proposals for managing supplier default and suggestions regarding how to ensure that mutualisation was implemented fairly and proportionately.

<u>Credit cover</u>

Question 19

Do you agree or disagree that credit cover should be the primary tool used to manage the risk of supplier default under the levy and why?

Summary of responses

Total	Agree	Neither agree nor disagree	Disagree	Don’t know / No Comment
26	8	1	6	11

Out of the 15 respondents who provided a response to this question, the majority agreed that credit cover should be the primary tool used to manage the risk of supplier default. Some of the respondents who supported the use of credit cover believed that it was a proven and effective mechanism to manage the risk of supplier default provided that the measures were proportionate and did not introduce unnecessary barriers.

Some of the respondents who disagreed pointed out that many aviation fuel suppliers were large multi-national companies with low default risk profiles and considered that the use of credit cover would impose unnecessary cost and increase administrative burdens and/or that credit cover should only be mandatory for suppliers with insufficient financial standing. A few respondents considered that a well-designed levy system including a reserve amount which could be drawn from and regular collection and assessment periods would mitigate the risk of aviation fuel supplier default and render credit cover unnecessary.

A few respondents raised concern that while they considered it unlikely, aviation fuel supplier insolvency or market exit could cause market distortion and proposed additional flexibilities, such as including a trigger for reassessment of the overall RCM scheme.

The low level of financial penalties imposed in the SAF Act was raised by one respondent that expressed concern that this could lead to suppliers choosing to pay the penalty fee rather than the levy. The respondent suggested that this could result in air passengers paying double, once for the defaulting volume in circumstances where a defaulting supplier had already collected levy payments, and again for the underpayment that would then be required to be paid by the remaining suppliers via mutualisation.

One respondent suggested that the approach to supplier default risk should be compared or managed similarly to road fuel supply on the basis that many aviation fuel suppliers also supplied road fuel.

Question 20

Do you agree or disagree with the stated assumption regarding acceptable forms of credit cover and why?

Summary of responses

Total	Agree	Neither agree nor disagree	Disagree	Don't know / No Comment
26	8	1	5	12

The majority of respondents who answered this question agreed that the proposed forms of credit cover were acceptable. Some respondents remarked that cash and standby letters of credit were consistent with other schemes and that letters of credit would provide greater flexibility and reduce the need for cash upfront payments which would reduce the risk of cost pass through back to airlines and air passengers. A few respondents suggested that parent company guarantees should also be included as an acceptable form of credit cover for companies and considered that this could reduce the cost of securing credit cover.

The majority of the respondents who disagreed with the proposed forms of credit cover fundamentally disagreed with the requirement to provide credit cover, as described in Question 19, with some reiterating that the requirement should be applied on a case-by-case basis. Some respondents reiterated that default risks should be managed through use of the reserve, as described in Question 19.

One respondent preferred a mixture of cash and letters of credit and capital guarantees from credible affiliates.

Question 21

How frequently should credit cover be updated and why?

Summary of responses

Total	Quarterly	Monthly	Other	Don't know / No Comment
26	6	2	5	13

More of the respondents who answered this question preferred quarterly updates to credit cover than monthly updates, considering that this frequency struck the right balance between liquidity and administrative efficiency and burden.

One respondent suggested that there should be provision for the counterparty to require interim updates to credit cover in circumstances where there was a material change to volumes supplied or aviation fuel supplier risk profiles.

The respondents that expressed a preference for a monthly frequency considered that it would enhance protection, have a negligible impact on air passengers, and have lower overall cost and exposure.

Alternative suggestions included an annual frequency, as more frequent updates would increase costs and administrative burden for aviation fuel suppliers, that credit cover would not be required, and that default risks could be managed through a reserve fund.

Question 22

In your view, what approach should be taken to the return of excess credit cover and earned interest on cash credit cover to suppliers?

Summary of responses

Responses to this question were mixed. A few respondents considered that excess interest and credit cover should be returned on a quarterly basis, while one respondent expressed a preference for an annual return to enable full oversight of costs for the next year.

Some respondents felt that excess credit cover and interest should be returned as promptly as possible within short, defined timeframes, to support cashflow, and reduce unnecessary financing costs. One respondent considered that there should be provision to request that excess credit cover should be returned to aviation fuel suppliers and a few respondents felt that credit cover should be transparently returned once all obligations had been settled.

A few respondents suggested that excess credit cover and interest should be retained by the counterparty and offset against future levy payments or managed through the reserve.

One respondent highlighted that if parent guarantees were deemed an acceptable form of credit cover, this would avoid the need to return excess credit cover or interest.

Government response to questions 19 to 22

The use of credit cover as a primary tool to manage the risk of supplier default

The use of credit cover was supported by most respondents who generally considered it a proven and effective mechanism to manage the risk of supplier default, provided that it was proportionate. While the Government notes the views expressed by some of the respondents, who considered that credit cover was not necessary, it believes that a robust credit cover mechanism will, as far as practicable, reduce the likelihood of a mutualisation exercise and that it would be the most effective way to mitigate non-payment at an individual level. The Government also believes that requirements to comply with the levy should be applied fairly and equally to all suppliers. In its consideration, the Government notes that the requirement to provide credit cover operates effectively for existing schemes, such as the Contract for Difference scheme[2] for low carbon electricity generation and the Nuclear Regulated Asset Base[3] scheme for nuclear power.

The Government acknowledges the comments made by some respondents who considered that the reserve should be used as a means of mitigating supplier default. While in practice, should a supplier's credit cover be insufficient, the reserve would be used to make prompt payments to RCM supported SAF producers, the Government retains the view that the primary purpose of the reserve would be to mitigate the risk of under-collection rather than non-payment/default by an individual supplier and this is the basis upon which the amount of the reserve would be calculated. The Government also considers that using the reserve as the primary means to mitigate supplier default would place the cost burden on all aviation fuel suppliers who are required to pay the levy rather than just the defaulting aviation fuel supplier.

Forms of credit cover

Most respondents supported the forms of credit cover proposed in the consultation. The Government remains of the view that cash, standby letters of credit or a mix of both should be the accepted forms of credit cover which aligns with existing schemes including the Contract for Difference scheme for low carbon electricity generation,[4] the Nuclear Regulated Asset Base[5] scheme for nuclear power, and the Green Gas Levy[6].

The Government acknowledges that a few respondents suggested that parent company guarantees or capital guarantees should be included as an alternative acceptable form of credit cover. The Government considers that parent company or capital guarantees do not provide the same level of assured, timely, and legally robust protection as the other proposed forms of credit cover. The Government is of the view that parent company or capital guarantees should not be accepted as a form of credit cover.

Credit cover frequency of updates

[2] The Contract for Difference (Electricity Supplier Obligations) Regulations 2014
[3] Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023
[4] The Contract for Difference (Electricity Supplier Obligations) Regulations 2014
[5] Nuclear Regulated Asset Base Model (Revenue Collection) Regulations 2023
[6] The Green Gas Support Regulations 2021 (as amended)

The majority of respondents considered that credit cover should be updated on a quarterly basis. The Government agrees that requiring aviation fuel suppliers to update credit cover quarterly as opposed to monthly would strike the optimum balance between ensuring that the counterparty remains solvent, whilst minimising the administrative burden of the scheme.

Government decision: Suppliers will be required to provide credit cover, in the form of cash, standby letters of credit, or a mix of both, on a quarterly basis as proposed in the consultation.

Return of excess credit cover and accrued interest on credit cover

The Government proposes that excess credit cover and interest would be returned to aviation fuel suppliers either on request and/or through regular credit cover assessments. The Government will clearly define the process for returning excess credit cover and accrued interest on credit cover in the Levy Regulations.

Mutualisation

Question 23

Do you agree or disagree that mutualisation should be used as a backstop measure, to cover unpaid amounts, when a supplier defaults and their credit cover is insufficient and why?

Summary of responses

Total	Agree	Other	Disagree	Don’t know / No Comment
26	7	2	6	11

More of the respondents that provided a response agreed, rather than disagreed, that mutualisation should be used as a backstop measure. Many of the respondents that expressed agreement stated that they supported this measure on the basis that they considered that mutualisation should only be used as a last resort after credit cover had been exhausted and other steps had been taken to minimise exposure.

One theme raised by respondents who disagreed was that mutualisation would impose an unknown, retrospective charge and unacceptable risk on compliant suppliers. Some of the respondents who did not agree with the inclusion of a mutualisation mechanism considered that the risk of supplier default could instead be managed through the reserve with adjustments to future levy rates to top up any deficit.

Some respondents mentioned the need for monitoring and need for early intervention measures to ensure that mutualisation was only used as a last resort and a minority of respondents suggested that the potential liability under mutualisation should be capped and pro-rated by company share. One respondent noted their view that enforcement action against defaulting suppliers should be clearly outlined in the Levy Regulations.

Question 24

What, if any, additional proposals do you have to manage supplier default risk under the scheme?

Summary of responses

Fifteen respondents answered this question. Some respondents suggested the collection of a buffer which could be drawn down in the event of supplier default and then topped up via adjustments to future levy rates as an alternative to mutualisation.

A few respondents considered that credit cover would be sufficient to manage the risk of supplier default either on its own or that it should be used in conjunction with other measures. Some respondents considered that close, frequent monitoring and early intervention measures would limit any shortfalls and that any supplier default should be covered by the reserve.

Other proposals included charging interest on late payments, imposing restrictions under the SAF Mandate for non-compliance and making payment of the levy a condition of operation. Additional comments from some respondents included proposals to cap the overall cost of the scheme, suggestions that mutualisation should only be used after credit cover had been exhausted and that there should be automatic reimbursement to suppliers following the recovery of funds from a defaulting supplier.

Question 25

What, if any, suggestions do you have on how to ensure that mutualisation is implemented fairly and proportionately?

Summary of responses

13 of the 26 respondents provided a response to this question. The most common suggestion was the use of a reserve/buffer in conjunction with adjustments to levy rates which could be used to cover unpaid amounts in the event of supplier default, with several respondents stating that they considered that this would serve to mutualise unpaid amounts across remaining suppliers.

A few respondents felt that to ensure mutualisation was proportionate, costs should be allocated in proportion to the market share held by a supplier and that safeguards should be used, including suggestions for a cap on overall liability to prevent disproportionate impacts on smaller suppliers.

Other proposals put forward by respondents highlighted the importance of having clear, defined guidance, that the final settlement period should be shorter than 18 months to reduce the risk of non-paying suppliers exiting the market and that any over recovery should be credited against future levy payments and passed through to passengers.

A few respondents expressed their opposition to mutualisation in general or felt that mutualisation should be limited and only used in exceptional circumstances.

Government response to questions 23 to 25

The Government acknowledges the points raised by respondents in relation to mutualisation, but retains the view that mutualisation is a necessary mechanism to guarantee a robust, reliable funding stream for the RCM.

The Government agrees that mutualisation should only be used as a last resort when credit cover is insufficient to fully cover the outstanding liabilities of a supplier which fails to meet its levy obligations. It is the Government's intention that when an aviation fuel supplier defaults on payment, the counterparty will first draw on the credit cover it has been provided with. If that is insufficient, the counterparty will then use the reserve it has collected to cover the supplier's liability as an interim measure until it can recover the amount due from the defaulting supplier through its compliance and enforcement powers.

The Government is of the view that only once all of these options are exhausted will the counterparty undertake a mutualisation exercise, which would involve splitting the outstanding liability across the remaining suppliers. This liability would be determined by a supplier's market share over the most recent quarter for which actual data exists. After the counterparty has successfully recovered the overdue payments, the counterparty would repay the suppliers who contributed under mutualisation in proportion to their respective mutualisation contributions. This process will be clearly set out in the Levy Regulations.

Government decision: To confer powers on the counterparty to undertake a mutualisation exercise as a backstop measure to be used only as final resort after credit cover and reserve has been exhausted.

Compliance and enforcement

The consultation sought views on four questions regarding the following proposed actions which would enable the counterparty to ensure compliance and enforcement of the levy to:

- request relevant information
- issue notices of non-compliance
- report on compliance and enforcement
- add interest on late payments
- pursue civil debts
- refer cases of non-compliance to the Secretary of State
- include an appeals process

Question 26

Do you support or oppose the use of compliance notices as a formal mechanism to address supplier non-compliance?

Summary of responses

Total	Support	Neither agree nor disagree	Oppose	Don't know / No Comment
26	15	0	0	11

All the respondents who answered this question supported compliance notices being used as a formal mechanism to address supplier non-compliance, with some respondents expressing support on the basis that it was a reasonable and proportionate approach, would provide transparency and act as a deterrent.

In addition, a few respondents suggested that Government should ensure the counterparty publishes this information to support transparency and fairness, noting the importance of enforcement action.

Question 27

Do you agree or disagree that the counterparty should report regularly on compliance and enforcement actions?

Summary of responses

Total	Agree	Neither agree nor disagree	Disagree	Don't know / No Comment
26	17	0	0	9

All the respondents who responded to this question agreed that the counterparty should report regularly on compliance and enforcement actions with some respondents expressing support for this on the basis that it would promote confidence, increase transparency and act as a deterrent. A few respondents were of the view that reporting information should be published and that this would also help maintain public confidence, though one respondent noted that any publication should ensure confidentiality.

Question 28

What, if any, further comments do you have on the proposed arrangements for administration, compliance, enforcement, and appeals for the levy?

Summary of responses

A total of 9 out of 26 respondents responded to this question. Respondents generally emphasised the importance of having a predictable, consistent and transparent framework with clear criteria and timescales for the administration, compliance, enforcement and the appeal process for the levy. Regarding appeals, some respondents considered that it was important that the process was robust, independent and fair.

Some respondents proposed an independent arbitration mechanism to investigate pricing concerns and to resolve disputes, with powers being conferred on the arbitrator to enforce and impose penalties.

Government response to questions 26 to 28

<u>The use of compliance notices as a formal mechanism to address supplier non-compliance</u>

The majority of respondents agreed with the proposals set out in the consultation. The Government agrees that these measures are proportionate and necessary to ensure timely and effective collection of the levy, and agrees that, where possible, information on compliance and enforcement should be published by the counterparty to support transparency.

<u>Reporting on compliance and enforcement</u>

The Government agrees that the counterparty should produce regular reports on the action taken regarding compliance and enforcement on the basis that this improves transparency and accountability, supports proportionate enforcement, acts as a reputational deterrent and informs future policy development.

<u>Arrangements for administration, compliance, enforcement, and appeals for the levy</u>

The arrangements for administration, compliance and enforcement and fair appeals will be clearly set out in the Levy Regulations. The Government will ensure that the correct balance is struck between minimising the administrative burden while ensuring that the counterparty has robust powers to ensure compliance and take enforcement action and that these processes are fair and transparent.

Government decision: Proceed with the proposed compliance and enforcement actions, including conferring powers to the counterparty to formally issue notices of non-compliance.

Government decision: That the counterparty publishes regular compliance and enforcement reports to provide visibility to Government and compliant suppliers about the extent and nature of non-compliance and the actions taken in response.

Question 29

What, if any, further comments do you have regarding the design of the levy?

Levy design

Several respondents reiterated the importance of transparency, cost predictability and making the levy administratively straightforward. A few respondents noted the need for Government to set out how it will ensure costs are accurately passed-through the supply chain.

A few respondents reiterated their desire for a pence per litre rate, charged prior to the production of RCM-supported SAF to build up a buffer and without any retrospective charges, as described early in this document. Some of these respondents also reiterated their desire for the Government to levy suppliers based on the total volumes of aviation fuel supplied to aircraft.

A few responses emphasised the need for a formal review mechanism to ensure performance and appropriate support.

Government approach to industry funding

A few respondents suggested that the Government should reconsider alternative funding mechanisms, including the use of funding received from suppliers paying buy-out under the SAF Mandate, or hypothecating receipts from Air Passenger Duty or the UK Emissions Trading System.

UK competitiveness

A few respondents raised concerns regarding the impact of the levy on UK competitiveness, flagging existing pressures on the UK fuel sector which are exacerbated by existing barriers to UK competitiveness, such as high energy costs, complex and burdensome planning rules, uncompetitive labour costs, and a high regulatory burden.

A few respondents also raised the risk of tankering, whereby an aircraft carries more fuel than is necessary for a trip to take advantage of lower fuel prices at the departure airport, and stressed the need for safeguards to be put in place to mitigate this risk.

A few respondents noted that the levy would increase fuel costs for airlines, which are already operating on fine margins.

Wider RCM scheme considerations

A few respondents articulated a desire for a clear timetable for the implementation of the RCM scheme to be published, with some emphasising the importance of timely implementation.

A number of responses also put forward suggestions for wider RCM scheme development. These included suggestions on:

- contract pricing decisions, such as ensuring that strike prices could be set above the buy-out price under the SAF Mandate, ensuring that the reference price corresponds to the market value of greenhouse gas savings that the SAF achieves, and enabling contract holders to sell a small proportion of their output on an "exchange platform" to help create an accurate market for SAF
- suggestions around contract allocation strategy, including allowing Power-to-Liquid projects to participate in the RCM, supporting a large number of projects and wide range of technologies in the first allocation round, and ensuring RCM contracts deliver value for money by reviewing the value for money of existing support for projects and capping the total spend to producers under the scheme
- contract provisions, including basing RCM contracts on SAF certificates, as issued to suppliers of SAF under the SAF Mandate, rather than volumes, allowing RCM-supported producers to produce volumes in excess of those supported under RCM contracts, ensuring that RCM-supported lower carbon fuels are not exported, and limiting the ability to offtake from RCM-supported projects to those obligated under the SAF Mandate/RCM levy

One respondent also sought clarity on compliance with subsidy control rules and State aid ramifications as part of the UK's obligations to the World Trade Organisation, EU-UK Trade and Co-Operation Agreement, and the Windsor Framework.

SAF Mandate interactions

Two responses flagged the risk that supply of RCM-supported non-HEFA SAF will be insufficient under current RCM timelines, when considering timelines for the construction and commissioning of UK production facilities. This would risk aviation fuel suppliers buying out under the SAF Mandate whilst also passing on costs of the levy, which would increase costs without the accompanying decarbonisation benefits. A few respondents suggested that the Government should ensure that buy-out and levy payments do not coincide and consider the inclusion of cover crops within the SAF Mandate above the HEFA cap to help mitigate this risk.

One respondent requested clear guidance on how the RCM levy would interact with the flexibility mechanism within the SAF Mandate.

Government response to question 29

Levy design

The Government intends to maximise transparency by the counterparty publishing all forecast and actual costs and volumes used to determine levy payments. The Government will continue to work with industry to determine how the scheme can be designed to support the transparent pass-through of costs through the supply chain and has published a second consultation seeking views on specific design considerations to help deliver this.

The counterparty will regularly forecast costs and volumes in both its calculation of individual levy determinations and publication of forecasts. The Government will keep the levy under review to ensure that it remains fit for purpose and will have the power to amend the Levy Regulations via statutory instrument if required.

Government approach to industry funding

The Government has previously set out its response to its public consultation on the approach to industry funding[7], which set out the rationale for the variable levy on aviation fuel suppliers and consideration of the proposals mentioned within responses to the levy design consultation, including redirecting existing and scheduled revenues.

UK competitiveness

The Government recognises the concerns raised regarding the overall costs of the scheme and potential impacts on the competitiveness of the sector. The Government will actively monitor and control the cost of the RCM scheme.

The Government previously made the decision not to introduce mitigation measures against tankering after reviewing responses in the second consultation on the design of the SAF Mandate. An assessment of the SAF Mandate's impact on tankering, and any mitigation options, is currently ongoing. We are reviewing all available evidence and will consider how the introduction of the RCM levy may impact this.

Wider RCM considerations

[7] Link to consultation: https://www.gov.uk/government/consultations/saf-revenue-certainty-mechanism-approach-to-industry-funding/outcome/saf-revenue-certainty-mechanism-approach-to-industry-funding-government-response

Whilst not the focus of this consultation, the Government will consider comments provided regarding wider RCM design decisions. The Government has separately run a public consultation on the RCM contract indicative Heads of Terms, including pricing decisions, and its approach to contract allocation. The Government will set out its response on related issues as part of its response to that consultation.

Regarding the export of RCM-supported SAF, the recent consultation on the indicative Heads of Terms[8] sets out the Government's position that the list of Non-Qualifying Offtakers may be designed to prevent SAF supported by the RCM being exported outside the UK.

The Government intends to confirm compliance with all subsidy control and State Aid requirements, prior to the award of any RCM contract.

SAF Mandate interactions

Regarding the risk that aviation fuel suppliers would buy out under the SAF Mandate whilst also paying the levy, the purpose of the RCM levy is to cover costs incurred under RCM contracts. As such, obligated suppliers will only be required to pay the main levy (the forecast cost of difference payments and associated scheme administrative costs) when RCM-supported SAF is being produced and sold.

Given the nascency of the SAF industry, the Government recognises the importance of monitoring technical and commercial developments to ensure there is sufficient SAF availability to meet demand in the long term. Should there be a need to update any requirement of the SAF Mandate, it would be subject to consultation before any legislative change.

The Government recently ran a Call for Evidence on the use of crops in SAF production, to give stakeholders who have new or improved evidence an opportunity to formally submit it. The Call for Evidence closed on 16 March 2026. Once responses have been reviewed, the Government will provide an update in the coming months.

[8] Link to consultation: https://www.gov.uk/government/consultations/saf-revenue-certainty-mechanism-indicative-heads-of-terms-and-contract-allocation

3. Next steps

Having considered in detail the responses to the levy design consultation, the Government has published a second consultation alongside this response which seeks to provide further clarification on how it is proposed that the levy will work and consider wider stakeholder design proposals. Our second consultation builds on the optionality set out in the first consultation and provides an opportunity for stakeholders to comment on detailed design options.