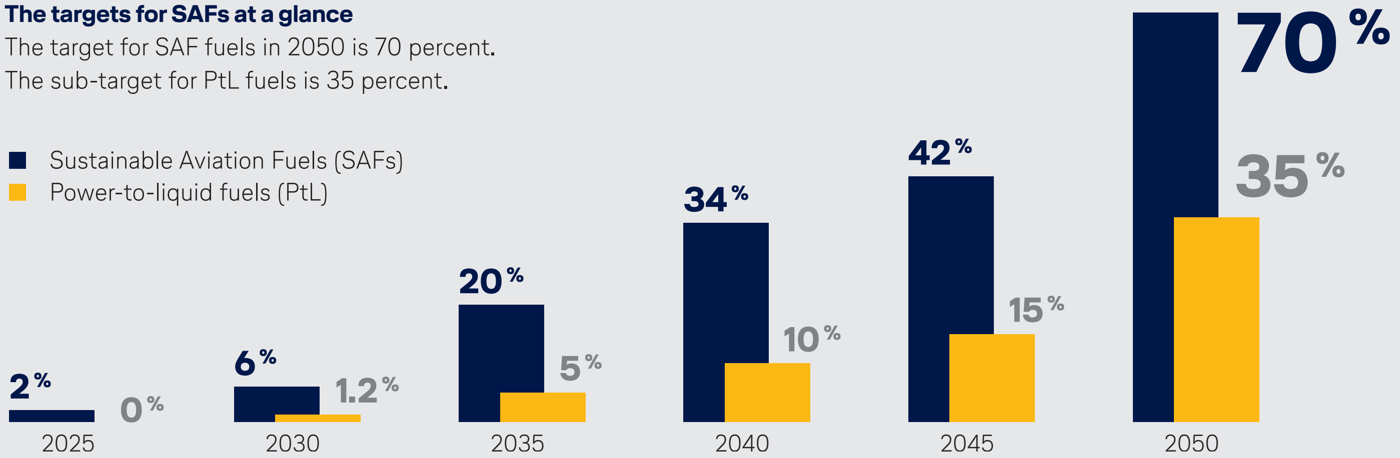
Sustainable fuels

EU MUST IMPROVE QUOTA DESIGN

From 2025, every plane departing from an EU airport must use a fuel blend that includes 2 percent of sustainable fuel. The figure will rise to 70 percent in 2050. The EU made this decision as part of the climate protection package called Fit for 55. Lufthansa supports the use of sustainable aviation fuels (SAF). The problem is that the EU's blending mandate for SAF unilaterally impacts European airlines and transfers in the EU and will result in carbon leakage – here, changes can and must be made.

The targets for SAFs at a glance
The target for SAF fuels in 2050 is 70 percent.
The sub-target for PtL fuels is 35 percent.



SAFs can make flying more climate friendly. But these fuels currently cost roughly five times more than fossil-based jet fuel. Moreover, they are in very short supply. If the entire global supply of SAFs were used, the Lufthansa Group would be able to operate for just one week. Another option is power-to-liquid fuels (PtL), a source of energy that has not yet been used in daily aviation operations. It would cost up to ten times more than fossil-based fuel. An SAF quota could indeed help kick-start the market. But, in light of the price disparity, it must be designed to be competitively neutral for all airlines.

This is precisely the flaw in the design of the EU's SAF target. On the one hand, it will unilaterally drive up the costs of connecting flights via European hubs. On the other, price increases for trips via Istanbul or Dubai will be marginal because practically no SAF costs will be generated during transfers at airports located outside the gateways of Europe. This results in distorted international competition and carbon leakage. A fair and simple solution would be an SAF levy based on travel destination – regardless of where a passenger changes planes. Such a solution would create a level playing field between EU airlines and their non-European competitors – and would have a bigger climate-protection impact because more airlines would have to use SAFs.

The situation is incomprehensible Brussels continues to ignore the aviation industry's recommendations for such equal treatment of all airlines. The German government also announced in its coalition agreement that it would work to create fair international competition in aviation. Unfortunately, this commitment is not reflected in Fit for 55. The key now is for the EU to take its announcement of a review clause seriously and make some rapid improvements.

Incentive strategy necessary for course correction

Lufthansa has been investing in SAFs for years and is supporting projects in several countries. The Lufthansa Group is one of the world's largest SAF customers and has already reserved green jet fuel worth a quarter of a billion U.S. dollars.

However, the industry cannot create a self-sustaining market all by itself. Current forecasts estimate that SAF production will be ramped up much slower than expected. For this reason, it remains to be seen whether the targets can be reached at all. If Europe seriously wants to take on a pioneering role in sustainable fuels, it will need a targeted support strategy involving the production and use of SAFs to go along with its binding mandates. A look at the United States shows how this can work: The Inflation Reduction Act (IRA) includes incentives for fuel blending and the production of SAFs and PtL fuels. The effort to make European aviation carbon neutral in the long term will not succeed without similar incentives in the EU.