



A new year ahead for aviation: Environmental and regulatory compliance

United Kingdom | Publication | March 2025

With obligations under both the EU's Refuel Aviation Regulation and the UK Sustainable Aviation Fuel (SAF) Mandate coming into effect on 1st January and the inauguration of a new administration in the United States with a very different agenda to its predecessor, 2025 already looks to be a significant year for the environmental regulation of aviation.

In this article we give an overview of where things stand from a regulatory perspective with respect to aviation's transition to a more sustainable future, focusing on a number of key areas, including the status of the EU taxonomy and aviation, plans for a potential UK taxonomy, developments with respect to transition finance which could impact aviation as a hard-to-abate industry, the UK's consultation on CORSIA and finally a look at SAF mandates and timelines.

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EU Taxonomy

By way of recap, the EU Taxonomy Regulation creates a classification system for environmentally sustainable activities. Certain aviation related activities - categorised as manufacture, leasing, passenger and freight air transport and air transport ground handling operations - were included in the EU Taxonomy from 1 January 2024.

The EU Taxonomy Regulation sets out technical screening criteria, which are the detailed rules with which an aviation related activity needs to comply in order to fall within the EU Taxonomy. Unfortunately the rules for aviation, as drafted, are unclear and there has been a lot of confusion about how they should be interpreted in practice. The good news is that during 2024 some, although not all, of these issues were clarified.

- **Interpretation of technical screening criteria:** Paradoxically the first clarification came as a result of the EU Commission's response to a challenge to the inclusion of aviation within the EU Taxonomy. A number of NGOs instigated an internal review of the inclusion of aviation within the EU Taxonomy pursuant to the Aarhus Convention on the grounds that this constituted a possible contravention of EU environmental law. The EU Commission reported back on this in June 2024, defending the technical screening criteria for aviation, and this report gave some insight into how the EU Commission intended those criteria to be interpreted in practice.
- **'Global Replacement Ratio':** Secondly and more importantly, in November 2024 the EU published [FAQs](#) relating to the Taxonomy and Aviation. In these they gave further guidance on how certain key concepts should be assessed. For example, the calculation of the Global Replacement Ratio - a key metric which is applied in numerous places throughout the technical screening criteria for aviation to limit the extent to which certain aviation-related economic activities can be considered taxonomy compliant. Its aim is to discourage an increase in the number of aircraft in the overall global fleet. The FAQs confirmed that the Global Replacement Ratio would be published centrally each year by the EU Commission with the support of EASA - before this, there had been confusion as to whether this was indeed going to be a centrally published figure and whether references to terms such as 'fleet' meant (i) the overall global fleet of aircraft across the world or (ii) the global fleet operated by a particular airline.

Furthermore, in January 2025 the Aviation Working Group together with IATA published a [manual of best practice](#), providing detailed guidance as to how the technical screening criteria might be interpreted.

The EU Taxonomy is important for a number of reasons - notably, because under the Corporate Sustainability Reporting Directive (**CSRD**) (which entered into force in January 2023 with a requirement for it to be implemented within the domestic laws of EU member states by 6 July 2024) many companies (including all EU listed companies) have to report annually on their percentage turnover and capital and operating expenditure aligned with taxonomy compliant activities. There is a phased approach to the commencement of the reporting obligations depending on the category of the entity concerned.

On 26 February 2025 the EU Commission published an Omnibus simplification package (the **Omnibus**) which is intended to try to address concerns regarding excess red tape and reporting requirements. The Omnibus impacts the EU Taxonomy Regulation, the Corporate Sustainability Reporting Directive (**CSRD**) and the Corporate Sustainability Due Diligence Directive (**CS3D**). It seeks to align reporting thresholds and implementation dates, limit impacts on SMEs, and reduce certain aspects of CS3D's due diligence obligations - please see our detailed briefing on the topic [\[insert link here\]](#). Although not specific to aviation and still in draft form, the Omnibus would remove smaller entities including many operating lessors from CSRD reporting requirements and delay compliance. If adopted, the Omnibus would require EU countries to transpose the amendments to the relevant implementation dates by 31 December 2025 at the latest. However, given that many EU countries missed the July 2024 deadline for transposing CSRD into their domestic laws and that the Omnibus has yet to pass through the EU parliamentary approval process, the timing for compliance may yet change.

A 'green taxonomy' for the UK?

In November 2024, the UK Treasury launched a consultation as to whether the UK should have its own green taxonomy. This consultation is high-level and is not specific to aviation; however, it follows from a more general concern about how best to support and encourage the channelling of finance towards industries which are looking to transition to a more sustainable future and to prevent greenwashing. Questions seek respondents' views as to the use cases for a taxonomy and the extent to which it should be inter-operable with other taxonomies - it clearly has in mind the EU Taxonomy. The consultation closed to responses on 6 February 2025.

Developments in Transition Finance

The consultation regarding a potential UK green taxonomy also follows on from the report on the findings of the Transition Finance Market Review, which was published by the UK Government in October 2024. There has been a general concern that, due to fears of potential greenwashing allegations, the number of sustainability-linked loans has decreased considerably in recent years and financial institutions have been discouraged from investing in high-emitting activities and hard-to-abate industries, despite the fact that private capital will need to be mobilised to support their transition - for example, to support the development of the new technology needed for green transition.

The Transition Finance Market Review examined some of these issues and their report contains some initial guidelines for credible transition finance. The Transition Finance Market Review Report has given rise to the idea of developing a more principles-based approach to transition finance and potentially a requirement for certain businesses, notably the largest listed companies, private companies and financial institutions, to publish transition plans. The Transition Finance Market Review also supports the work that the Loan Market Association (**LMA**) is doing to consider (i) the development of a 'use of proceeds' transition label along the lines of the green loan principles and (ii) uptake in the use of the UK Financial Conduct Authority (**FCA**)'s "sustainability improvers" label for funds investing in assets that may not be sustainable now, but which aim to improve their sustainability.

The EU had separately published its own recommendations for facilitating transition finance in October 2023. Although these recommendations did set out definitions of transition and transition finance, the recommendations focused on using the EU's existing sustainable finance framework to facilitate this.

However, more may be needed. At the end of 2023 there was a consultation on the application in practice of the Sustainable Finance Disclosures Regulation (**SFDR**), which requires certain market participants, such as certain asset managers, to disclose how sustainability risks are integrated into their investment decisions and provides certain disclosure requirements for financial products making sustainability claims. The report of the findings of the consultation was issued in May 2024. Part of the consultation had concerned the potential introduction of sustainable finance product categories. The consultation found that there was support from respondents for the creation of product categories with a focus on transition as part of this.

To date, there do not appear to have been any further developments following on from the consultation report and, again, none of this is specific to aviation. However, as the very definition of a hard-to-abate industry, the evolution of transition finance in future will be of particular relevance to the aviation sector.

UK Consultation on the implementation of CORSIA

CORSIA, ICAO's global carbon offsetting and reduction scheme for aviation, continues to be legislated for by participating states. Under the scheme, operators of flights between participating States will be required to offset any increase in their emissions above the baseline by purchasing and cancelling CORSIA Eligible Emissions Units (**EEUs**) generated by programmes that reduce emissions in other sectors, such as renewable energy. Operators can also reduce their offsetting requirements through the use of CORSIA Eligible Fuels, which include both sustainable aviation fuel or "SAF" and lower-carbon aviation fuel which meet the Sustainability Criteria agreed by ICAO.

CORSIA has three phases: a Pilot Phase (2021 – 2023); First Phase (2024 – 2026); and Second Phase (2027 – 2035). Although not mandatory until 2027, it is expected that around 126 states will participate in the First Phase, including the US, the UK and the EU, although the non-participation of five notable states - China, Russia, India, Brazil and Vietnam – is significant.

In December 2024, the UK launched a consultation to gather feedback on how it might implement CORSIA for UK operators. The outcome will be of interest to other countries looking how to implement CORSIA for their own operators.

The first part of the UK's implementation of CORSIA was enacted into law under the 2021 Air Navigation (CORSIA) Order, which requires UK aircraft operators to monitor, report and verify their CO2 emissions on international flights.

The consultation on Part 2 closed on 10 February 2025, concerning how to implement the requirement to actually offset the CO2 emissions, including, importantly, how CORSIA interacts with the existing UK emissions trading scheme (**UK ETS**).

The consultation deals with a number of elements:

- **Delays in implementation:** Perhaps representative of the slightly belated approach to CORSIA of many other jurisdictions, while the existing UK legislation addressed the 2021 offsetting obligations, those for 2022 and 2023 are not yet legislated for. As a result, the Regulator engaged voluntarily with operators to notify them of their 2022 and 2023 offsetting obligations by 30 November 2023 and 2024 respectively. However, as global emissions remained below the CORSIA baseline, there were no offsetting obligations for either of these years. The draft legislation will implement the offsetting requirements for the full duration of CORSIA until 2035.
- **Overall Approach to SARPs:** As expected, the proposed overall approach taken is that the UK offsetting requirements should closely follow the CORSIA SARPs (standards and recommended practices) to minimise differences with the international standard.
- **Data:** The existing legislation allows an operator in certain circumstances to ask for its commercially sensitive data not to be published. The consultation states that the Government is considering what additional data reported under CORSIA should be published, particularly data on the use of CORSIA eligible fuels.
- **Non-CO2 emissions:** Following in the footsteps of the EU, the consultation also confirms that the UK is considering how aviation's non-CO2 impacts could be included in the UK ETS, including how they could be monitored and reported, although they are currently neither covered by UK ETS nor CORSIA.
- **Penalties:** As expected, there is no hint of the unpopular fleet lien seen in the context of Eurocontrol fees and under the EU ETS regime when it applied in the UK. Instead, the consultation proposes that the penalties for non-compliance with CORSIA's offsetting requirements follow those under the UK ETS legislation, as is already the case for the MRV (monitoring/reporting/verification) requirements.

The penalty for non-compliance would be set at £100 per CORSIA Eligible Emissions Unit that the UK operator fails to cancel on time. Enforcement and penalties for non-compliance would therefore follow and be set at the same level as for the UK ETS notwithstanding the price difference between the two schemes – this throws into sharp relief the relative cost to airlines of failing to invest in CORSIA-eligible projects in a timely manner.

Interaction between CORSIA and the UK ETS

The EU had reason to look at CORSIA earlier than most countries, due to its existing emissions trading scheme. In its May 2023 directive, which addresses CORSIA's interaction with the EU ETS, the current derogation, which limits the scheme to flights within the European Economic Area or "EEA" only, was extended until the end of 2026. The EU also decided not to implement CORSIA on flights in scope of the EU ETS (flights between EEA States, and flights from the EEA to the UK and Switzerland), meaning EU operators will not be required to offset emissions under CORSIA on these flights to avoid double-charging.

The UK consultation looks at the interaction between CORSIA and its own UK ETS, established when the UK left the EU. The UK ETS currently applies to flights from the UK to Switzerland and the EEA (which is basically the EU plus Norway, Iceland and Liechtenstein), irrespective of the airline's nationality. As these flights are also in scope of CORSIA, if nothing is done, UK operators would be charged twice for the same emissions.

The consultation proposes two possible solutions to this - a UK ETS-only approach which mirrors the EU approach, or a price-based hybrid. Under the UK ETS only approach, flights in scope of the UK ETS would be exempted from CORSIA. Under the Price-based hybrid, both schemes would apply, but operators would be compensated for CORSIA compliance.

In either scenario:

- UK domestic and UK to Gibraltar flights will only be included in the UK ETS (as they are out of scope of CORSIA in any event);
- international flights to or from the UK that are not covered by the UK ETS would only be included in CORSIA where the other State is also a participant in the scheme; and
- EEA-to-UK flights would be covered by the EU ETS and Switzerland-to-UK flights would be covered by the Swiss ETS.

If the UK selects the UK ETS-only option, the consultation states that it would mirror the EU approach and not implement CORSIA offsetting for UK operators on EU ETS flights. However, if the UK implements the hybrid approach, where CORSIA is fully implemented on UK to EEA and Switzerland flights, it would need to further consider the potential competitiveness impacts for UK operators from continuing to apply CORSIA on flights in scope of the EU ETS and the respective actions of other States. Any offsetting exemptions for UK operators on EU ETS flights would be reflected in the final legislation.

The UK-ETS-only approach is the simplest to implement, both legislatively for the government but also administratively for airlines. It would align with the EU approach to the EU ETS and CORSIA, which could simplify operators' compliance obligations. However, it would mean airlines continuing to pay for expensive UK ETS Allowances and unable to benefit from the cheaper CORSIA emissions units. It also means the UK not fully implementing CORSIA and, as responsibility falls to an operator's state, any exemptions can apply to UK operators only.

The Price-based hybrid scheme would ensure that the UK fully complies with CORSIA, but would be complicated. Given the different compliance cycles for UK ETS and CORSIA, the consultation proposes that operators would continue to comply annually with their UK ETS obligations and be compensated, retrospectively, for the cost of compliance with CORSIA offsetting on the UK ETS flights only following the CORSIA compliance deadline every 3 years.

This option could reduce cost for operators given the lower price of CORSIA emissions units, but would diverge from the EU approach and could bring some complexity and administrative burden, particularly when delivered through changes to the UK ETS, for example through a reduction in UK ETS obligations. To compare the carbon prices of the two schemes, airlines would need to provide evidence of their costs of compliance with CORSIA due to no standardised data source.

Whichever option the UK selects, the picture for airlines will become complicated, as a result of the fact that they are administered by their own countries for CORSIA purposes. The various derogations by the EU and UK regarding implementation of CORSIA on certain routes for their own airlines will require complex analysis by airlines of what is required of them on which routes, with different treatment of airlines of different nationalities in their regulatory requirements on these flights. With the EU due to confirm in 2026 whether it views CORSIA as sufficiently delivering on the goals of the Paris Agreement and, accordingly, whether it will extend the scope of EU ETS to departing extra-European flights, things look to only become more complicated in this area.

Sustainable Aviation Fuel SAF

Legal frameworks

Internationally, governments looking to promote the use of SAF at their airports have had the dilemma as to whether to follow the US approach to SAF – the “carrot” of tax incentives to encourage increased production and supply – or the “stick” approach of the EU’s SAF mandate (ReFuelEU Aviation), which requires fuel suppliers to supply, and airlines to uplift, increasing proportions of SAF for use on flights departing from EU airports.

The UK joins the EU and a number of other countries in taking primarily the latter approach, with SAF mandates already implemented or in their early stages in countries such as Sweden, Norway, France, Singapore and Japan. Obligations under both the UK SAF Mandate and the EU’s Refuel Aviation Regulation kicked in on 1 January 2025. How these new regulations affect airlines and how they are handled by regulators will be closely scrutinised and are likely to influence regulatory initiatives elsewhere.

Meanwhile in the US, it remains to be seen to what extent the previous administration’s measures to support SAF, including under the Inflation Reduction Act, will remain in place or be dismantled entirely.

EU Position

In the EU, the substantive obligations under RefuelEU Aviation commenced on 1 January 2025 – these apply to aircraft fuel suppliers, airlines, and also contain an obligation on EU airport managing bodies to facilitate access to SAF.

Minimum SAF percentages: The main obligation on aircraft fuel suppliers is to ensure that all aviation fuel made available to airlines at each Union airport contains the minimum share of SAF, which from 2025 through to the end of 2029 is 2% of the annual total, rising to 6% in 2030. Helpfully, a derogation valid until the end of 2034 permits aviation fuel suppliers to supply these minimum shares of SAF as a weighted average over the aviation fuel they supply across all Union airports for that annual reporting period.

Refuelling obligation: A Refuelling obligation for aircraft operators also kicked in at the start of January 2025, requiring airlines to ensure that the yearly quantity of aviation fuel uplifted by them at a given Union airport is at least 90% of the yearly aviation fuel required. This is aimed at discouraging tankering practices, where an airline uplifts cheaper non-SAF fuels at non-EU airports which are not covered by minimum SAF obligations.

Reporting obligation: A reporting obligation for both airlines and fuel suppliers also started in 2025:

- Airlines are required to provide a fairly extensive report by 31 March of each year, starting in 2025, which details matters such as their total fuel uplifted and their total fuel required at each Union airport (which is largely for assessing compliance with the refuelling obligation) and, for every purchase of SAF, airlines need to be able to provide the details of the relevant fuel supplier, its type and lifecycle emissions, etc...

- Fuel suppliers must also report by the slightly earlier date of 14 Feb each year starting in 2025 on the total fuel and total SAF they have supplied at Union airports, as well as the SAF type, energy content, etc.

Book and claim report: Under the EURefuel Aviation, the Commission was due to have reported back by 1 July 2024, on the possibility of setting up or recognising a book and claim type of scheme – in other words, a system of tradability of SAF to enable fuel supply in the EU without it being physically connected to a supply site, so airlines would be able to purchase and claim the benefits of SAF being supplied elsewhere for a particular flight, even when they aren't able to physically upload the fuel themselves at that location.

Currently compliance with the EU legislation is predicated on the Mass balance system, which allows co-mingling of SAF and conventional aviation fuel into common infrastructure, but does require users to physically uplift fuel from this infrastructure.

On 27 February 2025, the Commission published its [final report](#) on the Assessment of the Production and Supply of SAF in Union Airports and the Feasibility of a System of Tradability of SAF in the EU, followed by a set of [FAQs](#) on 28 February, which clarify a number of points on EURefuel Aviation, including scope, eligibility criteria of fuels and reporting obligations.

The report examines how the current flexibility mechanism is functioning and explores potential improvements to enhance efficiency, supply, and market accessibility. It discusses how a book and claim system could work to address issues around accessing SAF across all relevant EU airports, but ultimately rejects the idea of a book and claim scheme on the basis that it would involve a revision of the legislation which *"at this early stage of the newly regulated market does not appear justified, especially considering that private initiatives are possible for any voluntary trade on both the supply side and the demand side"*. This is likely to disappoint industry groups who were lobbying for such a scheme.

UK SAF Mandate

The UK's SAF Mandate also started on 1 January 2025, and requires SAF to comprise at least 2% of jet fuel supplied in the UK by 2025, rising to 10% by 2030 compared to the EU's 6%.

In terms of timing, the end of the compliance year is 31 Dec 2025, after which aviation fuel suppliers will need to submit details and evidence regarding the SAF they have supplied in the previous year by 12 May 2026 for the first year.

The way the scheme works is that, once the administrator has assessed the information provided, tradeable certificates will be issued by 15 August reflecting the amount of SAF supplied.

To meet the annual targets given to them under the Mandate, aviation fuel suppliers can redeem their certificates against their obligations, carry up to 25% of them forward or buy more certificates to cover their obligations. To address concerns that aviation fuel suppliers may either not be able to procure the minimum required amounts of SAF in the initial phase or that excessive costs would be passed on via airlines to passengers, a buy-out option allows fuel suppliers, who do not meet their obligations, to pay a price per litre to the government. They are provided with the relevant buy-out amount to discharge their outstanding obligation in September, and have until 26th October to make payment. As such, it may not be until nearer to this time in 2026 that there is better visibility on how well the UK Mandate is faring.

The UK SAF Mandate differs from ReFuelEU, which doesn't permit a buy-out; instead, fuel suppliers and aircraft operators under ReFuelEU are faced with a penalty but still need to make up for their non-compliance in the following year. However, since 2024 airlines participating in the EU ETS receive support under an EU fund of EU ETS allowances aimed at mitigating the price difference between SAF and traditional jet fuel, with the amount available to be claimed varying by airport.

Alongside the UK SAF Mandate, the UK Government consulted on four possible options for a revenue certainty scheme, and in January 2025 confirmed that it will proceed with the Guaranteed Strike Price option. Under this option, a UK Government agency will guarantee an agreed price per litre of fuel produced by SAF producers who choose to apply to the scheme, in a manner akin to the contracts for difference scheme in the energy sector. This gives the most certainty to investors and can be targeted at UK producers of SAF. The revenue certainty mechanism will be industry funded, with a further [consultation](#) on the detail proposing the introduction of a variable levy on aviation fuel suppliers based on their share of the UK market. The need for primary legislation and the complexity in implementing the scheme could delay the scheme; however, the UK Government expects the legislation for a revenue certainty mechanism to be in place by the end of 2026. With the mandate already started, the industry will be watching keenly as to how quickly it is implemented, and how successful the mandate is will be closely watched in those jurisdictions currently considering their own SAF mandates.

Conclusion

We continue to monitor the regulatory position affecting aviation as it continues to evolve. If you would like to discuss any of this with us, please do get in touch.

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