Air France-KLM position paper on the upcoming Sustainable Transport Investment Plan (STIP)

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Executive summary

The forthcoming Sustainable Transport Investment Plan (STIP), as part of the Clean Industrial Deal, represents a pivotal opportunity for the European Union to accelerate the decarbonisation of transport through targeted investments in alternative fuel production, recharging and refuelling infrastructure. Air France-KLM (AFKL) welcomes STIP as a timely and strategic initiative to reach its net-zero commitments by 2050 while ensuring aviation's competitiveness.

While the AFKL Group is already strongly engaged and committed to reducing its emissions by 2050, its progress is however challenged by an unequivocal unlevel playing field with non-EU carriers which do not face the same obligations, as well as by a fragmented regulatory framework in the different EU Member States. Given aviation's classification as a *hard-to-abate* sector, we consider that the forthcoming STIP must focus on the following objectives: (i) reduce the cost difference for SAF in Europe compared to other regions in the world, and (ii) to enable competitive European SAF production. Aviation must therefore remain central to the upcoming STIP communication.

In order to achieve these objectives, we consider that the upcoming STIP must endorse a technology-agnostic approach that supports both existing and emerging solutions. Further to this, we emphasise that appropriate public and private funding mechanisms are required: a market intermediary design (including Contracts for Difference (CfDs)), the appropriate implementation of a book and claim (B&C) system, as well as the reallocation of Emission Trade System (ETS) revenues to the aviation sector. These measures are essential to de-risk investments and create an affordable and accessible SAF market. Finally, complementarity in incentives is required, as well as the appropriate use of current (and forthcoming) national and EU funds.

We call on the European Commission and its Member States to deliver on their ambitions. In that regard, we therefore expect concrete proposals under the forthcoming STIP, as a key priority of the Clean Industrial Deal, and as outlined in the Draghi report.

Introduction

Air France-KLM (AFKL) welcomes the European Commission (EC) upcoming Sustainable Transport Investment Plan (STIP) as a vital component of the Clean Industrial Deal. This initiative should represent a crucial step to decarbonise the aviation industry, as it is a window of opportunity to provide operational expenditure (OPEX) support for Sustainable Aviation Fuels (SAF) and to unlock investments for synthetic Sustainable Aviation Fuels (eSAF).

Aviation is a *hard-to-abate sector*[1], with massive costs involved in the green transition (which the Draghi report puts at €61 billion a year) that requires adapted investment and expanded EU funding. As part of our ambition to increase the uptake of SAF to 10% by 2030 and achieve net zero emissions by 2050, we call on the EC and its Member States to propose effective measures that (i) reduce the cost difference for SAF in Europe compared to other regions in the

[1] As qualified by the IPCC in its 6th assessment cycle (ENVReport2022_Art46.pdf)

world, and (ii) enable European SAF production. Failing to do so will affect aviation's pathway to decarbonise and put the competitiveness of the EU aviation industry at risk vis-à-vis third countries.

AFKL is fully committed to reach our climate objectives by 2050 and is already strongly engaged in the climate transition: In 2023, the Group nearly doubled its SAF usage compared to 2022, affirming its position as one of the top global SAF users. Despite these efforts, the Group's faces significant challenges due to the unlevel playing field between EU and non-EU carriers, as not all regions have equivalent regulatory frameworks or access to SAF, therefore leading to competitive disadvantage. To sustain and enhance its commitment, AFKL advocates for the implementation of supportive incentives that can help mitigating these disparities and promote a more balanced and more sustainable aviation industry across Europe.

Air France-KLM position on forthcoming STIP

Air France-KLM supports the ReFuelEU Aviation Regulation, which mandates the progressive incorporation of SAF, and aims for a 70% SAF incorporation by 2050. However, today, only limited SAF production capacity is located in Europe putting our energy security at risk while the price for SAF for the airlines remains fluctuating and uncertain. Due to the airline industry's low profit margins[2], air carriers are unable to absorb the extra cost of SAF compared to conventional kerosene, ultimately passing these costs on to their passengers.

Incentives are necessary to support the transition to accelerate European SAF production and secure affordable off-take prices for airlines at European airports. Current schemes are unfortunately limited in duration (not supporting long term commitments), scale (a broader scope that supports global SAF scale-up without extending the ETS framework is required) and scope (either production via Innovation Fund or off-take via EU-ETS Fuels Eligible for ETS (FEETS)). Without a coherent set-up connecting production, covering production, supply and off-take, uncertainty in realising policy objectives will remain. As one of Europe's most challenging sectors to decarbonise, aviation requires substantial investments to scale-up a diverse mix of production technologies and support mechanisms to cover a significant part of the additional costs for airlines.

Key ask(s) :

- **Prioritising aviation** - The Air France-KLM Group urges the need for a strategic focus on aviation within the STIP as it will be pivotal in aligning the sector with the EU's climate neutrality objectives.
- **Tech-agnostic pathway approach** – STIP must adopt a technology-neutral approach supporting by both existing and emerging technologies to ensure flexibility, diversification, enable innovation across the entire value chain, and accelerate emissions reductions.
- **Unlocking investments** - STIP includes market mechanisms to de-risk investments in emerging technologies and guarantee long-term offtake price visibility, on top of private financing schemes.
- **Strategic allocation of ETS revenues** - SAF allowances extended beyond 2030, ETS revenues from aviation are fully recycled into SAF production projects with early stages offtake agreements and ETS Innovation Fund dedicated to SAF projects.
- **Support of the transition** - Concrete incentives that support the availability and affordability of SAF and eSAF in the EU are required to secure the competitiveness of the EU aviation industry during its transition to a more sustainable model.
- **Mobilising existing EC funds** – The EC should demonstrate its financial commitment by allocating dedicated EC-level funding to the decarbonisation of the aviation sector.
- **Mobilising Member States support -** The EC must actively encourage its Member States to mobilise additional funding to support the deployment of more sustainable aviation fuels.

[2] 3,1% for 2024 according to IATA - IATA - Strengthened Profitability Expected in 2025 Even as Supply Chain Issues Persist

Air France-KLM recommendations

1/ STIP to have a comprehensive tech-agnostic approach

We encourage STIP to adopt a comprehensive approach that supports all SAF pathways. This includes support to currently available solutions such as Hydroprocessed Esters and Fatty Acids (HEFA) pathway, while also accelerating the deployment of advanced bioSAF and eSAF projects.

Biobased SAF, such as HEFA, remains the most commercially viable SAF pathway available today. Biofuels are deployable now and provide a crucial stepping stone to a broader SAF market. However, the feedstocks used to produce HEFA SAF are limited in supply, therefore increasing their costs in the future.

While the STIP must support mature solutions such as biobased SAF, it must also encourage the deployment of eSAF, which are expected to play a key role in the long-term decarbonisation of aviation. eSAF could reinforce Europe's energy security, strengthen its industrial base, and create ~20,000 jobs by 2050[3]. With the potential to unlock a €350+ billion global market and reduce global aviation emissions by 400 million tons annually, eSAF is key to achieving EU's climate and industrial goals. Despite ~30 announced projects, no facility has reached the Final Investment Decision (FID), highlighting the need for urgent policy action to scale production and secure the EU's leadership in this first-of-a-kind innovation.

Advanced Bio SAF will also play a role in the production and supply of SAF in Europe. As per eSAF those emerging pathways need public support to de-risk investments.

By ensuring that both biofuels and eSAF technologies are supported, STIP can deliver a balanced and realistic strategy to accelerate aviation decarbonisation across the full spectrum of viable solutions.

Key ask(s) :

- STIP must therefore ensure that its investment strategy includes dedicated support for **both biofuels and eSAF development and uptake**. This includes ensuring that the mechanism continue to cover all types of SAF.
- **SAF produced in Europe need to be competitive** with non-European production especially where public fundings provide substantial support. Without appropriate support, Europe risks continued dependence on third countries for its aviation energy supply.
- Finally, STIP should promote the development of **bankable offtake agreements**—agreements that are reliable enough to underpin long-term financing decisions and trigger final investment decisions.
- We call on the EC to **eliminate existing contradictions** between key regulatory frameworks such as the RED III and ReFuelEU Aviation, and to ensure alignment with national policies.

2/ STIP to call for adequate private and public financing framework

In order to unlock private investments, facilitate long-term offtakes by suppliers and/or airlines and ensure the competitiveness of European airlines is guaranteed a set of financial needs should be covered. If done right, European SAF production and supply can go hand in hand with affordable prices for the airlines and their customers. STIP should include market mechanisms to de-risk investments in each part of the value chain to support and spur both the energy transition and decarbonisation of aviation.

2.1 Market mechanisms

To accelerate the production and deployment of SAF and eSAF, it is essential to address the financial and market barriers currently limiting uptake. Mechanisms such as a market intermediary and Contracts for Difference (CfDs), as well as a robust Book and Claim (B&C) system can play a critical role in de-risking investment, reducing price

[3] See SkyPower website - 70+ industry leaders call for five key policy interventions to support scale-up of e-SAF | Project SkyPower

volatility, and enhancing transparency across the entire value chain. These tools are necessary to bridge the gap between early-stage production costs and long-term commercial viability, while enabling broader participation from both producers and off-takers in a globally interconnected market.

Market intermediary and Contracts for Difference (CfDs)

A market intermediary for SAF could serve as a central coordinating entity that connects producers, suppliers, and off-takers, helping to stabilise demand and reduce transaction costs. By aggregating SAF purchase and facilitating long-term offtake agreements, the intermediary can create greater price certainty for both investors and airlines, encouraging the production scale-up, especially for emerging technologies for advanced bioSAF and eSAF. The market intermediary could be government-backed and financed by recycling a share of the ETS revenues from the aviation sector, revenues from non-compliance fines under the ReFuelEU Aviation Regulation, and other new revenues such as the ones generated from a potential mechanism such as Carbon Border Adjustment Mechanism (CBAM) for aviation. The market intermediary can work on a double-sided auction based on CfDs: under CfDs, public funds compensate fuel producers for the difference between the market price and a pre-agreed strike price that reflects the actual cost of production, thereby de-risking investment and enabling long-term price certainty. For instance, the H2Global model, piloted by Germany and being adapted under the SkyPower initiative, offers a concrete template: a public intermediary runs competitive auctions to purchase low carbon fuels and sells them at market price, with the gap covered by public funding.

Key ask(s):

- We recommend that the EC explores potential **market intermediary** designs to aggregate demand, facilitate long-term offtake agreements, and reduce investments risk across the value chain.
- We therefore call on the EC to look at potential **CfDs mechanisms** and present concrete CfD models to scale up production of both SAF and eSAF through the Innovation Fund, recycling ETS revenues or other EU-level financing instruments.

Book and claim

STIP should support the implementation of a book and claim (B&C) mechanism that allows SAF production to be optimally located in the most cost-effective regions while ensuring emissions reductions are properly accounted for. Book and claim mechanism would need to be aligned with EU ETS principles, ensuring that SAF use is correctly credited to operators.

This would first (i) reduce reliance on local production constraints and encourage investment in high-potential SAF facilities, and (ii) weaken the market dominance of fossil fuel incumbents, fostering a more competitive and diversified SAF market.

The EC's report on B&C released on 27 February 2025[4] was a step in the right direction for the deployment of a flexibility mechanism. Concrete actions and dedicated timeline to implement it are now required to enable SAF uptake irrespectively of physical fuels delivery constraints.

The EU has already successfully implemented similar market mechanisms which have proven effective driving investments and enabled cross-border trading. Such a tradability system would promote competition and reduce the overall cost of compliance.

Key ask:

- We call on the EC to implement a **harmonised, transparent, and credible EU-wide book and claim** system to improve access to SAF for a wider range of stakeholders and accelerate the uptake across the aviation value chain in Europe.

[4] See EC website - Commission brings clarity on the ReFuelEU Aviation implementation - European Commission

- The EC should also address the lack of harmonisation across EU airports by working to close the SAF price gap, which creates market distortion and undermines fair competition.

2.2 Strategic allocation of ETS revenues

Air France-KLM acknowledges and supports the initiative to provide €20 million SAF allowances for airlines within the EU ETS between 2025 and 2030, as outlined in the delegated regulation on FEETS. These FEETS will lower a part of the additional costs created by the SAF mandate, we call up-on the Commission to continue this mechanism, however we want to stress that, with its limited allocation and annual awarding does not provide sufficient long-term security to justify long-term off-take contracts for airlines. Complementary solutions should be designed to facilitate the new (emerging technology) production facilities[5].

We insist that STIP should work for the demand side as well, i.e., incentivise airlines to purchase SAF and lower the SAF prices for airlines in order to maintain their competitiveness and ensure a smooth transition to a more sustainable model.

Key ask(s):

- Ensure that the **Fuels Eligible for ETS (FEETS) mechanism continue** to cover all types of SAF.
- Stabilise carbon pricing mechanisms to enhance investor confidence in SAF projects.
- **Secure ETS revenues recycling** into SAF funding through explicit changes in the EU-ETS Directive, mitigating diverging national choices during the transposition. For instance, Germany's April 2025 coalition agreement plan to reinvest 50% of ETS revenues in SAF is a welcomed development, but currently an isolated action.

2.3 ETS Innovation Fund

Air France-KLM supports the simplification of the access to the ETS Innovation Fund. The current application process and criteria are not sufficiently accessible and tailored to the needs of SAF production, creating barriers for project developers and investors.

Key ask(s) :

- The ETS Innovation Fund must be revised to ensure that funding is unlocked for a greater number of SAF projects
- The EC should **adapt the eligibility framework** to better reflect the capital-intensive and long-term nature of SAF production. This includes refining evaluation metrics to prioritise lifecycle emissions reductions, scalability potential, and alignment with EU climate goals.
- A **dedicated SAF funding window** within the Innovation Fund, coupled with increased financial allocations and added points for projects concerning production of advanced biofuels and e-fuels, would provide targeted support.
- The application process should be streamlined to reduce administrative complexity and encourage broader participation from SAF developers.
- Facilitating synergies with other EU financing mechanisms (such as Horizon Europe and InvestEU) can further amplify investment flows and accelerate SAF deployment on a scale.

3/ STIP to call for complementary national incentives that contribute to the aviation transition

[5] For instance, France has already committed to reallocate EUR 90 billion of the ETS revenues to the maritime sector. Similar initiatives are developed in other EU Member States.

Incentives at Member States level are designed to improve the economic viability of SAF by narrowing the gap with conventional fossil fuels. They can take various forms, such as tax credits, production subsidies, or revenues guarantees, and are typically aimed at encouraging investments, supporting early market development, and driving costs over time. By providing greater price certainty, incentives can help stimulate both supply and demand, especially in the early phases of scaling new technologies. While different models exist at national, EU and international levels, such mechanisms may play a constructive role in creating the conditions for a stable and self-sustaining SAF/eSAF market.

Key ask(s):

- We recommend that the EC and its Member States explore the design and deployment of **targeted national and regional incentives** to support the scale up of SAF and eSAF.
- Incentives schemes should also be extended to cover **long-haul flights** to avoid deepening further the unlevel playing field with non-EU carriers

4/ STIP to encourage appropriate usage of EU/MS fundings

Securing dedicated financial support for SAF deployment through existing EU-level fundings is essential. Key programs such as the Innovation Fund, Horizon Europe or the forthcoming European Competitiveness Fund should be strategically mobilised to support both capital and operational costs.

In parallel, the EU must actively engage and coordinate with its Member States to mobilise complementary national funding.

This **coordinated approach between EU and national levels** will maximise the impact of public funding in achieving EU's decarbonisation targets.

Conclusion

STIP represents a critical opportunity to align Europe's transport sector with its climate neutrality objectives. To fully realise its potential, STIP must prioritise support for *hard-to-abate* sector, such as aviation. This includes advanced both existing solutions and emerging pathways, underpinned by robust financial instruments and well-designed incentives.

We therefore call on the European Commission to make the STIP a cornerstone of the Clean Industrial Deal, helping to secure Europe's leadership in sustainable transport and delivering tangible benefits for climate, competitiveness and energy resilience.

End of the document