69 | June 11, 2026

IENE
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FOR SOUTH-EAST EUROPE

IENE Comment

Brussels Plans One-Two Punch for Airlines with SAF Mandates, ETS Expansion

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*By Irina Slav**

The European Union is doubling down on mandates for sustainable aviation fuels and an expansion of the emissions trading scheme to long-haul flights. The two moves will inflict additional pain on a key European industry already struggling with soaring jet fuel prices.

“We are calling for the eSAF mandate to be postponed until eSAF is actually available,” the CEO of easyJet told media in March, to no avail. Brussels is mandating that airlines use a certain amount of SAFs in their fuel for climate change purposes. There is nowhere near enough SAF volumes for those mandates, simply because there is not enough feedstock—and the process turning that feedstock into fuel is expensive.

The EU, in other words, is mandating a non-existent amount of costly synthetic fuel. Moreover, it has put 13 member states on notice for failing to institute penalties for airlines that do not use the mandated volumes of SAF—which volumes, it bears repeating, are not available.

The situation is so paradoxical that even the International Air Transport Association, otherwise a vocal supporter of the energy transition, had to step in and say a few words. Those few words included an observation that EU emission reduction policies have failed to live up to their promise and have instead compromised the competitiveness of a vital industry, namely, air transport.

At the same time, however, IATA’s Rafael Schvartzman, regional VP for Europe, urged Brussels to do something about SAFs, i.e. make sure they get produced. This could be a wake-up call for the EU, which appears to have assumed the mandates would be enough to spark demand. They were not.

According to the IATA official, sustainable aviation fuels are up to five times more expensive than regular jet fuel, supply is limited, and not easily available due to the scattering of producers. This is adding a financial burden on airlines that they really do not need right now. The two factors cited as reasons for this state of affairs are prices, as already noted, and the nature of the SAF producing industry: it consists mostly of startup companies rather than energy heavyweights.

The fact that Big Oil wants nothing to do with SAFs should be sign enough that SAFs can’t make it. The business world is cynical and if a product was profitable, the supermajors would have eagerly started making it. However, the industry has instead “have largely focused on distributing traditional fuel instead of reconfiguring their refineries to make SAF”, per the Wall Street Journal.

This is why, according to Argus Media data, of a total planned 260 SAF projects just 42 “have reached a stage in which they can start building and just a handful are operational.” On top of all the chronic challenges, the price of SAF feedstocks has recently been trending higher due to price movements in source commodities such as rapeseed. It is yet another instance of the cost trap that transition advocates often fall in: the assumption that production costs for transition technologies would only be moving downwards due to tech improvements, ignoring the commodity aspect.

Yet the EU is not done with the air travel industry. Besides the SAF mandates, it also plans to tighten the definition of what constitutes SAF. Currently, the definition includes fats and waste cooking oils. In the future, however, SAFs are expected to be what is described as second- and third-generation synthetic fuels made from captured carbon dioxide and green hydrogen: a product that is also prohibitively expensive and unlikely to become cheaper in the observable future. Indeed, those second- and third-generation fuels are seen costing 10 times as much as regular jet fuel.

Meanwhile, Brussels is planning another direct blow to airlines. It will extend its emissions trading scheme to long-haul international flights to make more money for emission reduction by emission reduction. It is a simple and elegant idea. It also aims to put all airlines on an equal footing, as short-haul flight operators are currently at a disadvantage having to buy carbon permits while long-haul airlines do not.

Yet airlines warned this week that this fresh mandate to buy emission permits will lead to higher ticket prices. “Expanding EU carbon pricing to extra-EEA (European Economic Area) flights will further penalise European passengers and businesses by increasing the cost of airfare and cargo,” 15 airlines wrote in a letter to the European Commission, with the group including both international majors such as Lufthansa and low-cost, short-haul operators such as Ryanair.

The sustainable aviation fuel story is yet another reminder that forcing energy consumption changes through mandates without any sort of contingency planning will invariably backfire, regardless of how presumably noble the intent behind the mandates may be. The EU is trying to regain its competitiveness. Saddling its major industries with higher costs is not the way to do it.

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IENE Comment – June 11, 2026 - Issue No.69 – ISSN:179-9163
IENE Comment is published by the INSTITUTE OF ENERGY FOR SOUTH-EAST EUROPE (IENE)
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