

# What the Biden Administration's New Section 40B Tax Guidance Means for Sustainable Aviation Fuel



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## Takeaway

- The Biden Administration's new guidance for the sustainable aviation fuel tax credit (SAF Credit) in the Inflation Reduction Act (IRA) strikes the right balance between growing a new domestic industry for SAF and ensuring the fuels it incentivizes are truly sustainable.

- By giving producers the flexibility to use different data-backed models to measure the lifecycle emissions of their SAF in order to qualify for the SAF credit, the Administration is making sure airlines won't have to pass higher fuel costs onto consumers, that our nation's farmers will have new market opportunities in the clean energy economy, and that the US stays competitive with countries that are making their own investments in SAF.

Sustainable aviation fuels (SAF), a low carbon alternative to conventional jet fuel, are widely recognized as the promising tool to decarbonize the aviation sector—a sector that accounts for around 2% of global greenhouse gas (GHG) emissions. Because SAF can be blended with conventional jet fuel and used in contemporary aircraft without any modifications to the plane itself, it is considered an efficient and effective way to reduce those emissions and a significant market opportunity for the US biofuels industry.

The Biden Administration agrees and has set targets to significantly increase US SAF production by 2030 under its SAF Grand Challenge. Meeting these targets won't be easy, and producers and policymakers will have to act quickly to make SAF production less expensive, produce greater volumes of fuel, and ensure SAF prices become more competitive with conventional jet fuel.

To help meet these goals, the Inflation Reduction Act (IRA) included a new performance-based tax credit—the Section 40B sustainable aviation fuel credit (SAF Credit)—designed to incentivize SAF production and lower the costs of these fuels. The SAF Credit allows SAF producers to receive between \$1.25 to \$1.75 per gallon for SAF that decreases GHG emissions by at least 50%, with greater emissions reductions translating into higher credit values.

Because this is a performance-based credit, both value of the credit and the fuels eligible to receive the credit will be defined by the model the Treasury Department uses to measure SAF's carbon intensity. And since different models can generate higher or lower carbon intensity scores for different feedstocks—especially crop-based biofuels—the Treasury's choice of models will determine how quickly the US is able to scale this industry.

On Friday, the Biden Administration announced that SAF producers will have the flexibility to use any of three different models to measure the carbon intensity of their products. This includes international methodology known as “CORSA” developed by the United Nation's International Civil Aviation Organization, the Renewable Fuel Standard program model in use by the Environmental Protection Agency (EPA), and an updated version of the “GREET” model developed by the Argonne National Lab.

Here's what this news means for the American SAF industry:

## **Consumers won't have to pick up the tab for SAF.**

Most airlines have already pledged to purchase millions of gallons of SAF despite its higher cost, and many of the largest airlines have set a goal of having SAF account for 10% of their total jet fuel consumption by 2030. These commitments are largely dependent on the US government's ability to help scale production and allow producers to deliver SAF at an affordable price. Otherwise, airlines will face the unfortunate choice between having to scale back their SAF commitments or continue paying higher prices for fuel than their competition.

Simply put, airlines making more ambitious SAF commitments should not be penalized by having to pass higher fuel costs onto their customers. There's not enough SAF being produced now to make a meaningful difference on ticket prices, but as the industry scales, it is important that low carbon SAF can qualify for the IRA's tax credits to subsidize the additional fuel costs associated with purchasing SAF.

## **It allows american farmers to take part in decarbonizing aviation.**

At a speech in July, President Biden made his vision for the SAF industry clear, saying "mark my words, the next 20 years, farmers are going to provide 95 percent of all the sustainable aviation fuel." As the United States continues to electrify ground transportation, SAF offers a new market opportunity for American farmers to pivot towards helping to build a sustainable, domestic SAF industry.

One of the three models being allowed by the Treasury Department—the Argonne GREET model—is being updated to reward producers for implementing GHG reduction techniques like carbon capture and storage, renewable electricity, and climate-smart agriculture practices, while also incorporating new data and science to more accurately account for indirect emissions associated with crop production. While the Biden Administration still needs to clarify how these updates will be rolled out, its decision to allow this model creates a clear path forward for American farmers to take part in growing the US SAF industry.

## **It makes the United States competitive in the emerging global SAF market.**

As the largest biofuel producer in the world, the United States is well positioned to be a leader in the emerging global market for SAF. However, many jurisdictions such as the European Union, the United Kingdom, and British Columbia have countered the US's incentive-based approach by enacting policies *requiring* airlines to use more and more SAF over time. These mandates create firm demand for SAF and long-term certainty for investors in SAF facilities that are

understandably skeptical that airlines will continue to be willing to pay a premium for cleaner fuels. The new guidance ensures the tax credits will incentivize SAF over other alternative fuels, so that the US does not risk ceding investment to these other jurisdictions at a critical time in the industry's development.

## **Conclusion**

The SAF Credit marks the first US federal policy designed solely to increase domestic SAF production. Ultimately, we will need a combination of much longer-term production incentives and firm, long-term demand signals in order to build a robust domestic SAF industry. In the meantime, this guidance provides us with a path forward to make meaningful emissions reductions and scale up this new industry to meet the Biden Administration's target of 3 billion gallons of production in 2030.

### TOPICS

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