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Clear intentions, cloudy path: aviation's ongoing ESG challenge

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Two years after many of the world's leading airlines, aircraft manufacturers, and regulators doubled down on ESG commitments (https://reut.rs/4lNZNOa), the global aviation sector is sticking to its 2050 net-zero emissions pledge, but not without some turbulence. At the recent annual summit of the International Air Transport Association (IATA, https://reut.rs/4lP9lZe), industry leaders reaffirmed their climate targets while voicing renewed skepticism about the feasibility of meeting them.

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Still committed to net zero — for now

At its June 2025 summit in New Delhi, IATA, which represents more than 350 airlines, maintained its commitment to net-zero carbon emissions by 2050, a target first announced in 2021. The group estimates the cost of achieving this goal to be $4.7 trillion globally, or approximately $174 billion annually. That figure reflects the expense of procuring sustainable aviation fuel (SAF), investing in next-generation aircraft, overhauling operations, and purchasing carbon offsets.

Despite rising doubts about whether the goal remains realistic, IATA steered clear of reopening the debate. In contrast with the tone of past summits, some attendees voiced "waning enthusiasm" for the energy transition. The aviation industry has grown increasingly vocal in its criticism of other stakeholders, particularly energy companies that it says are failing to deliver SAF in sufficient quantities as well as aircraft manufacturers whose production delays are forcing carriers to rely on older, less efficient planes.

A SAF bottleneck

Sustainable aviation fuel remains central to the industry's decarbonization strategy. SAF, typically produced from renewable feedstocks such as used cooking oil or municipal waste, can cut lifecycle emissions by up to 80% compared with conventional jet fuel. Yet, SAF still accounts for less than 1% of global aviation fuel use, and many carriers say they are unable to secure supply without importing fuel over vast distances, undermining emissions reduction goals.

In addition to sourcing hurdles, SAF remains approximately three times more expensive than fossil jet fuel. This cost disparity continues to suppress demand, and recent legislative changes in the United States are poised to widen the gap.

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While the Inflation Reduction Act of 2022 initially offered generous tax incentives and grant programs to support the production of SAF, the recent federal tax and spending bill signed into law on July 4, 2025, rolls back many of those benefits. And while the SAF Grand Challenge (https://bit.ly/3H0275v), which seeks to produce 3 billion gallons of SAF annually by 2030 and meet 100% of aviation fuel demand with SAF by 2050, appears to still have the support of various federal agencies, the scaling back of these tax credits threatens to stall the project's momentum.

By contrast, the European Union continues to expand its regulatory framework to accelerate SAF adoption. Under the ReFuelEU Aviation regulation (https://bit.ly/3GR1Q4T), aircraft refueling at EU airports must use a minimum of 2% SAF starting in 2025, with that requirement increasing incrementally to 70% by 2050. The EU's broader "Fit for 55" climate law (https://bit.ly/40BPaFE) includes additional measures to spur SAF production and uptake, including tax incentives, blending mandates, and emissions pricing under the EU Emissions Trading System.

While some industry stakeholders have raised concerns about regional cost disparities and uneven infrastructure, the EU's binding targets and clearer policy trajectory have positioned it as a more stable environment for long-term SAF investment compared to the now-uncertain U.S. framework.

Carbon offsets and legal exposure

Carbon offset markets continue to play a supporting role in aviation climate strategies, helping airlines cover the "last mile" of emissions that cannot yet be eliminated through sustainable fuels or other technology. However, legal risks surrounding offset quality, transparency, and permanence remain.

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Under the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA, https://bit.ly/4kWfykS), airlines engaged in international flights must purchase offsets to compensate for emissions exceeding 2019 levels. The EU's Emissions Trading System (https://bit.ly/4nWeGPQ) similarly applies to intra-European aviation. Yet, until recently, there was no globally unified standard for measuring, verifying, or trading offsets, leaving companies, including airlines, exposed to reputational risk and potential litigation over misleading sustainability claims.

This may be changing following the framework established at the United Nations Climate Change Conference (COP29, https://bit.ly/44ZCLww) in November 2024, which institutes a centralized United Nations–backed crediting mechanism with science-based methodologies, environmental integrity safeguards, and registry oversight. However, implementation is still in progress, and until these standards become fully operational and integrated into systems like CORSIA, regulatory fragmentation will continue to challenge the credibility of aviation's offsetting strategies.

Further complicating matters, in the United States the Commodity Futures Trading Commission has moved to regulate voluntary carbon markets, issuing guidance in late 2024 (https://bit.ly/470z6RD) and initiating enforcement actions under its anti-fraud authority. By contrast, the U.S. Securities and Exchange Commission has pulled back from climate-related disclosures, formally withdrawing its defense (https://bit.ly/4o49iu3) of the agency's contested climate disclosure rules in March 2025.

In the absence of consistent federal standards, airlines are confronted with increasing pressure from investors, consumers, and international regulators to demonstrate the integrity of their offset strategies. This intensifying scrutiny underscores the need for robust internal ESG controls and credible third-party validation. Airlines relying on offsets should treat them with the same level of diligence applied to financial assets by ensuring they are verifiable, independently audited, not double-counted, and tied to projects that meet rigorous criteria for permanence, additionality, and transparency.

Greenwashing, litigation, and stakeholder scrutiny

Aviation companies now face not only investor pressure to demonstrate credible ESG progress but also heightened legal exposure to greenwashing claims. There has already been class action litigation and regulatory enforcement (https://reut.rs/4f6Uo2c) targeting airlines for misleading environmental marketing, especially for claims that rely on questionable offsets or unverified SAF usage. Similar scrutiny is coming from state attorneys general, particularly where consumer harm can be shown.

This evolving enforcement landscape underscores the importance of internal ESG governance. Airline legal departments should ensure that marketing teams, sustainability officers, and investor relations functions are all aligned on the substance and messaging of environmental claims. What may have once passed as aspirational language is increasingly treated as legally actionable misrepresentation.

Looking ahead

In the near term, airlines are poised to benefit from higher profits and falling fossil jet fuel prices, providing a short-term cushion amid escalating SAF costs. Some industry experts have called on airlines to invest those savings into accelerating the transition. Others caution that economic uncertainty and geopolitical tensions, ranging from ongoing trade disputes to supply chain disruptions, may force carriers to prioritize competitiveness over sustainability.

Still, as regulators, investors, and passengers apply more pressure, ESG action from the aviation industry is no longer optional. Whether through SAF, new aircraft, operational efficiencies, or high-quality offsets, carriers that lead on credible decarbonization will be better positioned to withstand the next wave of litigation, regulation, and reputational scrutiny.

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