

17 July 2024



Hon Chris Bowen
Minister for Climate Change and Energy
Department of Climate Change, Energy, Environment and Water

Hon Catherine King
Minister for Infrastructure, Transport, Regional Development and Local Government
Department of Infrastructure, Transport, Regional Development, Communications and the Arts

Sent via email: lclfconsultation@infrastructure.gov.au

Dear Ministers,

FUTURE MADE IN AUSTRALIA: UNLOCKING AUSTRALIA'S LOW CARBON LIQUID FUEL OPPORTUNITY

The Chamber of Minerals and Energy of Western Australia (CME) is the peak representative body for the resources sector in Western Australia. CME is funded by member companies responsible for 20 per cent of Australia's corporate income tax receipts in 2022-23.¹

In 2022-23, the WA resources sector accounted for 65 per cent of Australia's resources exports,² half of Australia's resources capital expenditure³ and 53 per cent of Australian resources employment.⁴

CME welcomes the opportunity to provide feedback to the Department of Climate Change, Energy, Environment and Water (DCCEEW) and Department of Infrastructure, Transport, Regional Development, Communications and the Arts' (DITRDCA) consultation paper on Unlocking Australia's low carbon liquid fuel (LCLF) opportunity (LCLF Consultation). In order to ensure an equitable and efficient energy transition, a mix of renewable and low carbon energy sources are essential to allow all sectors to contribute to Australia's emissions reduction target of 43 per cent below 2005 levels by 2030.

CME and its members recognise that the **WA resources sector is heavily reliant on liquid fuels accounting for 43 per cent of Australia's resource sector diesel consumption.**⁵ Low carbon liquid fuel, such as renewable diesel, offers the sector an immediate decarbonisation pathway that is compatible with existing assets and associated infrastructure.

CME has sought feedback from member companies across the LCLF value chain to make a series of recommendations that support the development and investment in a domestic LCLF industry with high-integrity sustainability values and enabling policy to encourage uptake in sectors with technical and commercial challenges to transport electrification into the mid-term.

1. The low carbon liquid fuels opportunity and Australia's comparative advantages

Australia's comparative advantage as an LCLF producer is access to local, sustainable feedstocks. In the short to medium term, sustainable biomass resources primarily supplied from our agricultural sector can be re-directed from export to domestic biofuel producers.

In the longer term, Australia's renewable hydrogen and CCUS industries will provide the key feedstocks for production of third-generation liquid e-fuels.⁶ Any LCLF policy should be prospective to support sustainable non-biogenic feedstocks as both biogenic, and non-biogenic resources are required to produce the liquid fuel volumes needed to meet decarbonisation targets.

Australia's comparative advantage is also contingent on our large liquid fuel demand which can provide long term offtake certainty to ensure access to finance and de-risk capital investment.

¹ Includes company tax, fringe benefits tax, petroleum resource rent tax and excise duty. Commonwealth of Australia, [Final Budget Outcome 2022-23](#), The Treasury, 22 September 2023, Note 3: Taxation revenue by type, p 39.

² Government of Western Australia, [2022-23 Economic Indicators Resource Data File](#), Department of Energy, Mines, Industry Regulation and Safety (DEMIRS), 9 January 2024. Australian Bureau of Statistics (ABS), [5368 International Trade in Goods](#), Table 32a.

³ Investment refers to capital expenditure as measured by gross fixed capital formation, current prices. ABS, [5220 Australian National Accounts: State Accounts](#), Table 25. ABS, [5206 Australian National Accounts: National Income, Expenditure and Product](#), Table 34.

⁴ ABS, [6291 Labour Force, Australia, Detailed](#), Table 5.

⁵ DCCEEW [Australian Energy Statistics](#), Table F – Australian energy consumption, by state and territory, by industry and fuel type, energy units 2021-22

⁶ CSIRO identifies hydrogen and CO2 as key potential feedstocks for SAF production in Australia. [Sustainable Aviation Fuel Roadmap](#), CSIRO 2023

Government measures need to address the competition Australian LCLF production faces from international jurisdictions with mature LCLF policies to support production and consumption. The competition includes premium payments for sustainable feedstock⁷ and LCLF price setting.

Without supportive policy and enabling regulation Australia will continue to rely on imports of liquid fuels and remain vulnerable to supply chain risks.

CME supports the development of policies and regulation that will accelerate the development of a LCLF industry in Australia.

2. Options to support domestic low carbon liquid fuel production

CME understands that establishing a new LCLF industry will require a range of supply side and demand side mechanisms and supports. CME supports the development of a production incentive scheme with a variety of policy levers including grant-based payments. The Government may consider extending the Fuel Security Services Payment to LCLF refineries in recognition of the fuel security benefit they provide.

CME recommends that policies are technology agnostic yet acknowledge the diversity of LCLF pathways in terms of potential production volumes, feedstock distribution and availability, and commercial readiness levels.

A production incentive scheme must also consider the competition between international and domestic markets, as well as competition between Sustainable Aviation Fuel (SAF)⁸ and renewable diesel across different timelines as they rely on the same feedstocks. For context, the WA resources sector consumed 228 petajoules of diesel in 2021-22 compared to the state's aviation sector which consumes on average 37 petajoules.⁹ Any production support program should be designed to prioritise domestic fuel demand and security and maximise decarbonisation potential across the economy.

Beyond fiscal production incentives, policies that provide enabling infrastructure, access to industrial land and low-cost renewable electricity will benefit the LCLF industry as they do for other green energy industries.

3. Considerations regarding emissions and sustainability criteria

CME supports the inclusion of an emissions reduction threshold and sustainability conditions as eligibility criteria for a production incentive program.

A minimum threshold should be consistent with international standards, align with Government emissions reduction targets and the Guarantee of Origin certification. The threshold should be contextualised to Australia's competitive advantages and be linked to a carbon intensity on a life cycle basis. In lieu of Government increases in the threshold, market-based incentives should be applied to encourage emissions reduction in addition to a minimum eligibility threshold to induce continued innovation in LCLF production.

CME notes the historical food versus fuel conflict during the development of first-generation biofuels such as biodiesel and ethanol from food crops. Renewable diesel and SAF are second generation biofuels that derive feedstock from sustainable sources such as agricultural residues or non-food energy crops integrated into farming systems. **Ensuring high-integrity sustainability criteria designate eligible biomass feedstocks¹⁰ for production incentives is important to mitigate social licence issues in regional agricultural communities.** Aligning the sustainability criteria with the International Sustainability and Carbon Certification (ISCC) requirements for farms delivers many Australian farmers an advantage as they are ISCC accredited to access EU markets.¹¹

Ultimately, a production incentive program needs to carefully consider feedstock sustainability and availability to avoid negative sustainability or social licence impacts. Incentives applied upstream to encourage farmers to bring sustainable feedstock to market should be considered. Education is important to promote positive food, fibre and fuel production outcomes at the community and Federal level.

⁷ The EU offers a premium market for WA's canola which meets the International Sustainability and Carbon Certification (ISCC).

⁸ The international aviation sector has ambitious goals to cap net aviation CO2 emissions from 2020 and net zero emissions by 2050. The International Air Transport Association (IATA) acknowledges that SAF will do the heavy lifting in emissions reductions and estimates that 24 million tonnes of SAF will be required by 2030 to realise these goals.

⁹ Based on pre-COVID aviation consumption of jet fuel 2015-2020 averaged 37.6 PJ.

¹⁰ Sustainable feedstocks align with international and domestic land use, land-use change and forestry (LULUCF) standards

¹¹ <https://sustainablegrain.com.au/iscc/>

4. Demand-side mechanisms

CME recognises the importance of industry consultation to deliver important insights on potential demand-side measures relevant to sectors of the Australian economy reliant on liquid fuels. There are several considerations and scenarios recommended for inclusion when the Government undertakes the regulatory impact analysis, including:

- The Safeguard Mechanism obliges liable facilities to reduce their emissions and acts as a demand-side lever for Safeguard Mechanism mining facilities to decarbonise their diesel use. Further mandates are likely to increase prices during a transitional period where carbon costs are being applied and switching to LCLF is not cost competitive.
- Demand-side measures should only apply to sectors and sub-sectors reliant on liquid fuels with significant barriers to vehicle electrification while supply is constrained. This includes land-based heavy vehicles on and off-road in the heavy freight, regional rail, mining and agricultural sectors.
- Demand-side measures for maritime and aviation sectors should leverage and align with their international sectoral emissions reduction targets and obligations.
- Sub-targets should be considered for land-based applications, aviation and marine. An efficient market-based mechanism should pass costs onto end-users and be time limited.
- To facilitate economy-wide decarbonisation, measures should prioritise access to sufficient, competitively priced LCLF by domestic end-users.
- Demand options that require a portion of locally sourced LCLF may disproportionately impact first-mover LCLF producers.
- A blending mandate could conflict with organisations sustainability objectives where the provenance of the blended renewable diesel was not transparent to the end-user. Renewable diesel customers require high-integrity supply chains to meet their sustainability reporting obligations.

CME recommends that Government consider a suite of fit-for-purpose demand side mechanisms tailored to sectoral decarbonisation benefits associated with diesel-reliant sub-sectors in Australia.

Other

SAF and renewable diesel are often co-products of the same production pathway. As the industry scales and market demand changes, producers need regulatory flexibility to take advantage of market signals and change the proportion of fuel type produced by a facility. Avoiding regulatory duplication is important to facilitate flexible production and onerous administration.

Conclusion

CME is broadly supportive of the Australian Government's position on LCLF and recommends that close collaboration with liquid fuel-reliant industries such as mining, and the agricultural sector is essential to unlocking the opportunity to produce and consume domestic LCLF products. **Frequent review and revision of LCLF policy mechanisms is recommended as domestic production scales, new technologies commercialise, and the market matures in Australia and globally.**

CME recommends an education campaign to mitigate inevitable misconceptions around competition for land by promoting that food, fibre and fuel can co-exist, and the significant fuel security improvements a domestic LCLF industry can provide.

Should you have questions regarding this letter, please contact Anita Logiudice, Manager Environment and Sustainability, on 0448 468 632 or via email at a.logiudice@cmewa.com.

Yours sincerely,



Rebecca Tomkinson
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