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MEMBER OF



The Director
Low Carbon Liquid Fuels Consultation Team
By email: lcfcconsultation@infrastructure.gov.au

18 June 2024

Dear Sir/Madam

Please find attached a submission from the Australian Automobile Association (AAA) in response to the *Low Carbon Liquid Fuels, A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity Consultation Paper*.

The AAA is the peak organisation for Australia's motoring clubs and their 9.3 million members. The AAA's constituent clubs are the NRMA, RACV, RACQ, RAA, RAC, RACT and the AANT. The AAA regularly commissions research and develops in-depth analysis of issues affecting transport systems, including affordability, road safety, and vehicle emissions.

The AAA notes that the consultation on Low Carbon Liquid Fuels is focused on the aviation, heavy vehicles and maritime sectors, but is concerned at the potential cost impact on liquid fuels for light vehicle users, particularly in the current environment with cost of living pressures.

Yours sincerely,



Michael Bradley
Managing Director

AAA Submission on Low-Carbon Liquid Fuels

Response to: A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity Consultation Paper

Introduction

The Australian Automobile Association (AAA) is pleased to provide feedback to the Department of Infrastructure, Transport, Regional Development, Communications and the Arts, and to the Department of Climate Change, Energy, the Environment and Water regarding the *Low Carbon Liquid Fuels, A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity Consultation Paper*.

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The AAA's Transport Affordability Index shows that, on average across capital cities, the percentage of household income spent on transport has increased from 15.8 per cent in the March 2023 quarter to 16.9 per cent in the March 2024 quarter. The ABS Monthly Consumer Price Index Indicator for May 2024 shows that the monthly CPI for Automotive fuel has increased by 9.3 per cent since May 2023.

The AAA supports a transition to net zero and expects that there will be costs and consequences associated with this transition. Mindful of the consumer impacts, particularly during times of financial pressure due to the cost of living, the AAA is technology agnostic and supports least cost abatement. The AAA believes that an economy-wide emissions trading scheme, rather than sector-specific interventions, would be the appropriate mechanism to deliver least cost emissions abatement.

The AAA is committed to ensuring Australia's light vehicle fleet meaningfully contributes to Australia's decarbonisation and that Australians are in the best possible position to choose the transport technology option/s that suit their lifestyle, household budget, and commuting needs.

The AAA notes that the Government has already moved to regulate its preferred sector-specific method for decarbonising light vehicles through the New Vehicle Efficiency Standard (NVES) and encouraging the uptake of electric vehicles. The associated marginal cost of abatement from the NVES is sector specific and not tradeable through other schemes such as Australian Carbon Credit Units. Furthermore, the NVES does not take into consideration the emissions intensity of the liquid fuel used in service for the operation of internal combustion engines.

Background

In the recent 2024-25 Federal Budget, the Australian Government allocated funds to support the growth of new renewable industries through its *Future Made in Australia* policy. The Government has identified the low carbon liquid fuels (LCLF) industry as a candidate for potential investment.

The 2 key fuels being considered are:

1. Sustainable Aviation Fuel (SAF)
2. Renewable Diesel as a 'drop in' substitute for mineral diesel

Low carbon liquid fuels offer the opportunity to reduce CO2 emissions from internal combustion engines. The use of 'drop in' LCLF has the potential to reduce emissions from existing and new internal combustion engines, including light vehicles.

The government has indicated its interest in supporting this industry in Australia through supply and/or demand side incentives. The consultation paper identifies several strategic strengths that Australia possesses that will support this industry such as proximity and abundance of feedstocks, in addition to predicted strong future demand overseas. Domestic production of these fuels from domestic feedstock can also assist with liquid fuel security by reducing dependence on imported fuel and oil.

The AAA notes that the consultation paper is focused on aviation, maritime and heavy vehicles, rather than light vehicles. However, given that light vehicles use the same diesel fuel as heavy vehicles the use of LCLF may also impact the light vehicle fleet.

The consultation paper indicates that renewable diesel is estimated to be roughly twice as expensive to produce as mineral diesel. The AAA anticipates that the additional cost of fuel for heavy vehicles used to transport goods would be passed on to consumers through delivery costs, increasing the cost of consumer goods including groceries and fuel, adding inflationary pressure.

The AAA also notes that the specification for automotive diesel is the same for both light and heavy vehicles. The use of renewable diesel by heavy vehicles is expected to increase the price of diesel and the AAA is very interested in understanding the mechanism to ensure that such a price increase will be quarantined to only apply to heavy vehicles and not also impact light vehicles.

Supply side incentives under consideration by the Government include grants and/or production subsidies for producers of low carbon liquid fuels, but it is not clear who pays for these. Light vehicle users should not be required to subsidise the cost of abatement in other sectors.

Feedback

Given the potential for the use of LCLF in heavy vehicles to have a flow on impact to light vehicles, the AAA offers the following feedback:

Light vehicle users should not be required to contribute to the revenue required to provide a subsidy to producers of LCLF.

The AAA wants light vehicles to be excluded from any mandate to use LCLF. Light vehicle emissions are legislated to be managed through the New Vehicle Efficiency Standard (NVES). Given that the consultation paper indicates renewable diesel is expected to be twice as expensive to produce compared with mineral diesel, light vehicle operators should have a choice about whether to use LCLF.

Limitations in the retail fuel distribution network such as the number of underground storage tanks or fuel bowsers at retail sites may mean that renewable diesel will be substituted for mineral diesel for both light and heavy vehicles, resulting in increased cost for both these vehicle types.

Changes in the price of diesel fuel resulting from a demand-side mandate such as a low carbon fuel standard may have flow-on effects on pricing across the entire pool of diesel, not just the portion used by heavy vehicles. It is unclear from the consultation paper how light vehicle users will be protected from these price impacts.

The Government has already legislated the NVES for light vehicles. Consumers who purchase higher emitting new light vehicles may be impacted by a financial penalty on the purchase of the new vehicle (as a result of the NVES) and then additionally impacted by financial penalty in using a low carbon fuel to operate the vehicle and the NVES does not recognise this possibility. This situation could see internal combustion engine vehicle owners paying twice, and they may not be in a position to switch to a battery electric or low emission vehicle due to financial or operational constraints.

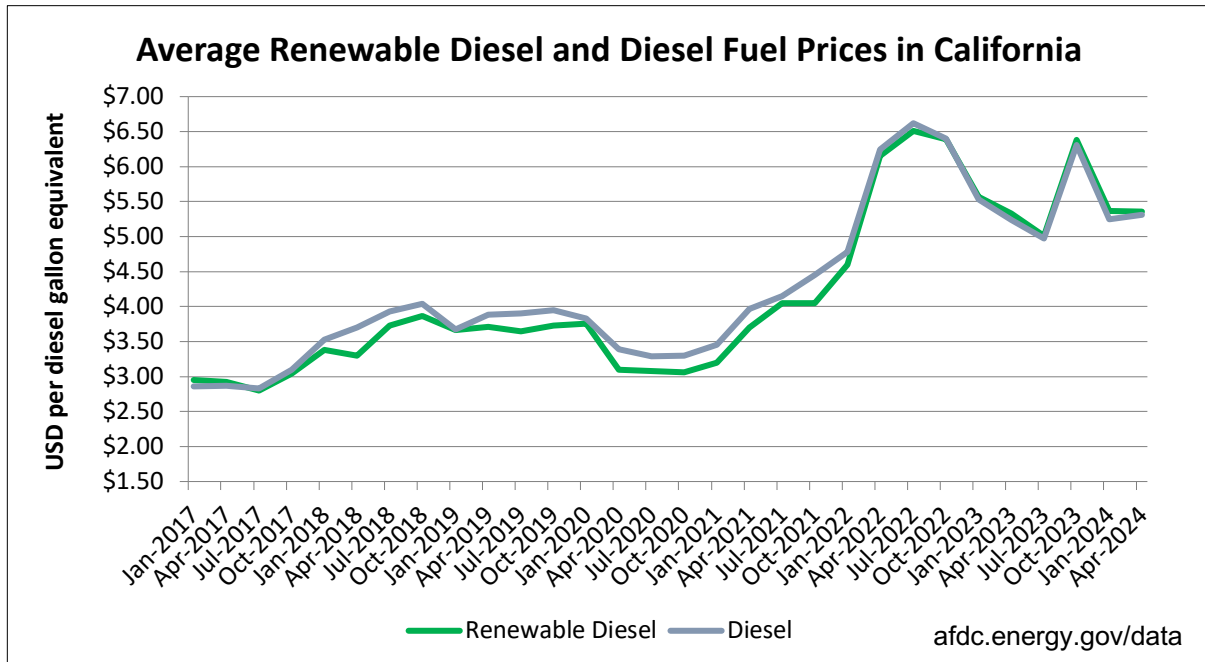
In formulating its LCLF policy, the government must fully explain the costs and benefits including those that impact light vehicle users.

Diesel prices under the Californian Low Carbon Fuel Standard

The California Air Resources Board Low Carbon Fuel Standard regulation came into effect on 1 January 2011 and was amended in 2011 before being re-adopted in 2015 and 2018. Its current goal is to reduce the carbon intensity of the transportation fuel pool by at least 20 per cent from 2011 levels by 2030. It addresses a range of fuels including renewable diesel.

An analysis of average pump prices for renewable diesel and mineral diesel in California (as per the graph below) shows that these two prices are the same. The AAA expects that this same situation would arise in Australia, with the higher production cost for renewable diesel causing an increase in the cost of diesel, and this would apply across the entire diesel pool regardless of the type of vehicle – light or heavy – using the fuel. The consultation paper notes that renewable diesel is expected to be twice as expensive to produce compared with mineral diesel. If renewable and

mineral diesel were priced differently, there would be a commercial disincentive to purchase renewable diesel and supply side mandates such as a Low Carbon Fuel Standard would not be met.



Recommendation

The AAA recommends that the Australian Government should ensure that any policy change to support and/or require the use of low carbon liquid fuels in heavy vehicles does not adversely impact the price of fuel for light vehicles, or that any such impacts are fully explained.