

## Australian Constructors Association

# Low Carbon Liquid Fuels

## A Future Made in Australia: Unlocking Australia's Low Carbon Liquid Fuel Opportunity

July 2024

The Australian Constructors Association (ACA) welcomes the opportunity to provide a submission in response to the Low Carbon Liquid Fuels – A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity consultation paper.

### About us

Established in 1994, ACA is a trusted voice for the construction industry. Collectively, our members construct and service over 90 per cent of the value of major infrastructure projects built in Australia. Our vision is a sustainable construction industry that is a great place to work.

### Our Position

Australia's net zero ambitions cannot be achieved without decarbonising construction. Construction is a hard to abate sector and we are seeking to work closely with governments and other stakeholders to fully understand the implications of Australia's net zero target as well as providing insight on how this can be achieved.

Electrification is the ACA's preferred decarbonisation pathway, but technology constraints mean that this is not an option in the short to medium term. To bridge this gap the construction sector needs to rapidly adopt low carbon liquid fuels (LCLFs), specifically, renewable diesel. Renewable diesel is a critical transition fuel for the construction sector as it enables emission reductions without modifications to existing machinery.

However, there is currently no reliable domestic renewable diesel production in Australia. Importing renewable diesel is currently cost prohibitive, relative to mineral diesel. It can also be challenging to source renewable diesel for import due to high levels of demand. In an industry facing escalating costs for many of its inputs and where contracts are awarded based on price, adoption of renewable diesel is a competitive disadvantage.

In our [Renewable Diesel Position Paper](#), released in March 2024, the ACA called for the Australian Government to lead the development of a LCLF policy. We therefore welcome the release of this consultation paper and the Australian Government's prioritisation of the LCLF industry as part of its Future Made in Australia agenda.

### **Government intervention for the establishment of a domestic LCLF industry**

In an environment where there are a range of government policies, both domestic and international, that influence the availability and affordability of LCLF it is necessary for the Australian Government to consider its policy settings. Global demand for LCLFs and the feedstocks required to produce them is growing and Australia must consider how to respond to achieve its emission reduction goals.

However, it is important that any incentive scheme/s or policy results in the establishment of a sustainable LCLF production industry. The intended outcomes of any intervention must be clearly defined, and careful consideration must be given to the best way for these to be achieved. Consideration of possible interventions should include existing policies and incentives that apply to other mineral based fuels and the extent to which they impact the use/ production of LCLFs.

### **Production incentives and the need for supply-side support**

A key barrier to the adoption of renewable diesel in Australia, and LCLFs, is the lack of supply. Domestic production must be scaled if we are to meet our net zero ambition. While some refineries are in the early stages of development, the industry needs a catalyst.

In addition to providing fuel security and certainty of supply a domestic production industry will have other benefits. It will minimise transportation and distribution requirements, and the environmental impacts that these activities can have. Environmental benefits and low carbon outcomes are maximised when there is close proximity between feedstock supply, processing and end use. A domestic LCLF industry will also provide a range of benefits beyond decarbonisation. It has the potential to generate significant employment and income in areas with abundant feedstocks.

Access to feedstock is one of the factors that has the potential to limit domestic supply. As noted in the consultation paper, Australia is a competitive producer of LCLF feedstocks, a large volume of which are currently exported and transformed into LCLFs in overseas facilities. A supply chain of suitable, sustainable feedstocks needs to be developed to underpin a domestic LCLF industry. The development of initiatives to support a domestic LCLF industry should consider the benefits from incentivising retention and use of domestic feedstocks against the use of imported feedstocks.

When evaluating production incentives consideration must be given to the overall impacts of LCLF production, not only the carbon emissions from their use. Certain feedstocks, such as palm oil, can be produced using unsustainable practices and their use in the production of LCLF has the potential to undermine the whole industry. Transparency and traceability requirements for LCLF production to protect the integrity of the supply chain must be considered. This consideration must be part of any assessment of imported feedstocks or the requirements for imported LCLF.

Feedstock resources and LCLF production incentives should be aligned with future liquid fuel demand and industry decarbonisation pathways. Renewable diesel production volume targets and Sustainable Aviation Fuel (SAF) volume targets, if used, should therefore be considered separately to ensure appropriate prioritisation, recognising that renewable diesel and SAF each serve different end markets, future demand and industry decarbonisation pathways.

### **Opportunities to generate demand**

LCLF incentives are common across Europe and in an increasing number of US states. These policies are driving demand and, in the US, renewable diesel production is expected to more than double by the end of 2025 as a result. This demonstrates the power of government incentives in driving demand and investment in production.

Australian firms have fewer incentives to accelerate adoption of LCLFs and therefore certainty of demand is not generating investment in supply. While some organisations are seeking to pursue decarbonisation, and are seeking to use LCLFs, the majority are waiting for clear policy signals from government before undertaking significant investment. Any demand side intervention undertaken by governments should be aimed at providing the certainty needed for investment in production.

The Australian Government has a significant opportunity to influence the use of, and demand for, LCLF in the construction sector through its procurement activities. The Australian Government invests billions of dollars in construction activity, both directly and through the funding it provides to states and territories, which could be used to incentivise the use of LCLF. This could be achieved through requirements for the use of LCLF or even through direct bulk purchase and supply to construction contractors for major infrastructure projects. Such bulk purchasing arrangements have the potential to result in a level of demand that delivers the benefits of production at scale.

Consistent decarbonisation targets across the infrastructure procurement policies of all Australian jurisdictions could further support demand. Most Australian jurisdictions have carbon emission reduction targets and alignment would provide the construction industry with a single framework for achieving carbon emission reductions. This level of certainty and consistency would support use of renewable diesel on infrastructure projects during construction. It would provide a critical demand signal for the industry to respond to.