

ALC Submission

Low Carbon Liquid Fuels Consultation Paper

Wednesday, 17 July 2024

Introduction

Australian Logistics Council (ALC) is the peak national body representing major companies participating in the end-to-end freight supply chain and logistics industry with a focus on delivering enhanced supply chain safety, efficiency and sustainability. Our members are key stakeholders and significant consumers of both renewable diesel and Sustainable Aviation Fuel (SAF) and are committed to collaborating with government to ensure the sustainable growth and stability of these transformative fuels for the freight and supply chain sectors.

Freight affects every Australian and every business, every day, everywhere. Common goods purchased by Australians such as food, clothing, household appliances and medicine, plus all business equipment needs to be transported by freight operators. Australia's population is expected to grow by 10 million by 2040, an increase which must be supported through proactive investment in freight transport and freight logistics infrastructure.

The importance of an effective, resilient, unencumbered national supply chain in day-to-day life, as well as in times of national disruption, has never been as universally recognised as it is now. Noting the unprecedented circumstances in which the pandemic served, the actions taken by governments at both a Commonwealth and state and territory level, as well as by industry, must be acknowledged and viewed as valuable lessons that will enable greater preparedness in future crises or national disruption.

The ALC appreciates the opportunity to respond to the Low Carbon Liquid Fuels (LCLF) Consultation Paper. ALC is committed to supporting the development and implementation of sustainable practices and technologies that contribute to the decarbonisation of the transport sector. We strongly endorse the transition to low carbon liquid fuels and believe that this shift is essential for achieving Australia's net zero emissions target. The industry's shift to LCLFs will not only help reduce greenhouse gas emissions also it will both enhance Australia's fuel security by reducing dependence on imported fuels as well as allowing ALC customers to meet, over the longer terms, any mandated scope 3 emission reductions that may be imposed..

Commentary on the Consultation Paper

In our responses to the Government's direct questions, we have focused on the most pertinent aspects. However, the ALC emphasises the essential role of these fuels and the need for appropriate policy frameworks to support their use and local production in Australia. This approach is vital not only for decarbonising the transport sector but also for enhancing national fuel security.

It is important for the Government to adopt a comprehensive approach that addresses all environmental, economic, and social dimensions of the low carbon liquid fuel industry:

- **SUPPORT FOR INDUSTRY DEVELOPMENT** - The Government must support the development of the LCLF industry through mechanisms such as contracts for difference (CfD). This approach provides a clear and fair market signal, enabling large-scale uptake and ensuring long-term offtake agreements.
- **EMISSION STANDARDS** - Government has the critical role to play of ensuring that stringent emission standards are implemented to mandate the reduction of greenhouse gas emissions from liquid fuels. These standards should be progressively tightened to encourage uptake and continuous improvement.

- **LIFECYCLE ANALYSIS** - The Government needs to develop and enforce regulations requiring comprehensive lifecycle analysis of fuel emissions from manufacture to use. This ensures that emissions are considered at all production stages, promoting transparency and accountability for both low carbon liquid fuels and fossil fuels.
 - **CARBON PRICING** - Government needs to consider the introduction of some form of carbon pricing mechanism in order to ensure that the cost of lowering emissions is borne across the industry and not just by a small number of providers. This could be some sort of carbon tax on fuel, a cap-and-trade system, or a book and claim system which would allow the environmental cost of carbon emissions to be spread and will incentivise the use of the lower carbon alternatives. In an industry where margins are wafer thin, it is not possible to do anything but push the cost onto the end consumer.
 - **RENEWABLE FUEL STANDARD** - Government should consider the introduction of a renewable fuel or low carbon fuel standard in order to strengthen and expand the renewable fuel standards that require a certain percentage of fuel sold to be derived from renewable sources. This will drive the demand for low carbon liquid fuels in much the same way as the adoption of Euro 6 standards will drive, over the longer term, a reduction in emissions as a result of the purchase of heavy vehicles complying with the standard.. This could be undertaken through a Low Carbon Fuel Standard such as that used in California to promote the uptake of lower carbon fuels.
- INFRASTRUCTRE UTILIZATION** - One of the most significant advantages of low carbon liquid fuels, often overlooked or underestimated, is that they are 'drop-in' alternatives. This means they can be used without any modifications to the existing infrastructure for distribution and refuelling. Current infrastructure, including fuel stations, can continue to operate as usual, and the existing fleet and capital investments can remain in use, potentially saving billions of dollars. This flexibility results in substantial cost savings and allows the efficient use of existing supply chain and logistics infrastructure for the production, transportation, and storage of low carbon liquid fuels, thereby significantly reducing overall emissions and costs for the industry. Moreover, it makes decarbonization accessible to smaller operators who might otherwise face insurmountable investment hurdles. By removing the need for significant infrastructure and asset changes, smaller operators can take meaningful steps towards decarbonization, contributing to the broader industry goals without the burden of prohibitive upfront costs.
- **INTERNATIONAL COLLABORATION** - Federal and state governments need to collaborate internationally to share best practices, technologies, solutions, and research in low carbon liquid fuels. Harmonizing standards and regulations across borders will facilitate international trade and adoption, enhancing fuel security and providing certainty for fuel uptake, especially given that our Original Equipment Manufacturers (OEMs) are based in Europe or the Americas.
 - **RETAINING FEEDSTOCKS** - Australia must retain its feedstocks domestically to lower the price of LCLFs. Currently, these feedstocks are exported to the EU, Singapore, and the US for renewable diesel and SAF production, which increases costs for local production.
 - **PERFORMANCE METRICS** - The Government should establish performance metrics to monitor and assess the impact of policies related to low carbon liquid fuels. Regular review and adjustment of these policies based on real data and outcomes are essential to ensure transparency, accountability, and continuous improvement.
 - **PUBLIC-PRIVATE PARTNERSHIPS** - The Government should foster public-private partnerships and collaboration between government, industry, and academia to accelerate innovation, production, and commercialisation of new fuel technologies, enhancing local fuel security and uptake.
 - **INCLUSION OF BIO-DERIVED GASES** - Bio-derived gases such as BioLPG and rLPG (renewable propane and butane) should be included in the discussion. These 'drop-in' replacement fuels for regular LPG are critical for decarbonising various industries, such as materials handling fleets. Additionally, the production of Renewable Aviation Kerosene (RAK), synonymous with Sustainable Aviation Fuel (SAF), and the development of renewable LPG (rLPG) and Renewable Dimethyl Ether (rDME) should be considered in planning for future fuels.

Questions

What do you think are Australia's comparative advantages as an LCLF producer? Where does Australia face international competition?

Australia has significant advantages in producing LCLFs due to its large landmass, advanced farming practices, and access to renewable feedstocks. These assets support the potential for low-cost production of Sustainable Aviation Fuel (SAF) and renewable diesel. However, Australia faces international competition from regions like the EU, US, and Singapore, where established policies and subsidies support LCLF production. To capitalize on these advantages, Australia must create a supportive policy environment and invest in local production capabilities.

Based on the current policy and market environment, to what extent will Australia rely on imports of LCLF, as opposed to domestic production?

Without substantial policy changes and support mechanisms, Australia will remain reliant on imports for LCLFs. Current policies do not sufficiently incentivise local production, and international competition further challenges domestic capabilities. Developing local production will require robust support, including financial incentives and regulatory frameworks that promote investment and innovation in the LCLF sector.

What mechanism do you think would best support a production credit scheme – through the tax system, contract for difference or grant-based funding?

A combination of tax incentives, contracts for difference (CfD), and grant-based funding is likely necessary to support the LCLF industry effectively. Each mechanism offers unique benefits:

- Tax Incentives: Provide broad, predictable support accessible to various producers.
- Contracts for Difference (CfD): Offer tailored revenue certainty and encourage competitive bidding.
- Grant-Based Funding: Supports specific projects and innovations, particularly beneficial for emerging technologies.

Are there other mechanisms Government could consider to deliver production support, other than a production tax incentive or competitive grant-based payment? What do you think is the highest priority form of support?

Other mechanisms could include carbon pricing, renewable fuel standards, and direct subsidies for infrastructure development. The highest priority should be creating market certainty through mechanisms like CfD and renewable fuel standards, ensuring consistent demand and supporting long-term investments.

What would an expected rate of support be under a competitive grant-based production scheme (contract for difference or fixed grant amount per production unit)?

The rate of support should be sufficient to close the cost gap between LCLFs and conventional fuels. This could involve a per-unit subsidy adjusted periodically based on market conditions, ensuring that support scales with production costs and market prices.

How many producers would you expect a production incentive scheme to support in Australia?

A well-designed incentive scheme should support a diverse range of producers, including both established players and new entrants. Initially, it could support a dozen producers, scaling up as the market matures and production capacity increases.

How could the introduction of a production incentive scheme affect competition in fuel production and supply markets, and also amongst fuel users?

A production incentive scheme would enhance competition by lowering entry barriers for new producers and encouraging innovation. For fuel users, it would increase the availability of LCLFs, potentially lowering prices and offering more choices, thereby fostering a competitive market environment.

[What are the expected timeframes for when an industry would be sustainable without support from Government?](#)

The industry might require 10-20 years of support, depending on technological advancements and market developments. Continued government support will be crucial until LCLFs achieve cost parity with conventional fuels and the market becomes self-sustaining.

[Would production support need to offer a different rate of incentive for SAF and renewable diesel?](#)

Yes, given the different production costs and market conditions for SAF and renewable diesel, differentiated incentives are necessary. SAF may require higher initial support due to its higher production costs compared to renewable diesel.

[Would a potential production support program need to prescribe certain proportions of production volumes towards SAF or renewable diesel?](#)

Yes, to ensure balanced growth and address sector-specific needs, the program should prescribe minimum production volumes for both SAF and renewable diesel. This would incentivise the production of sufficient domestic supply for critical sectors like aviation and so meet domestic fuel security policy outcomes..

[Do you support an emissions reduction threshold being included as part of eligibility criteria for fuels to receive support under a production incentive program? What threshold would you seek be included in eligibility criteria \(for example, 50 per cent emissions reduction relative to conventional fuels, or another emissions reduction ratio\)?](#)

Yes, an emissions reduction threshold is crucial. A starting threshold of 50% emissions reduction relative to conventional fuels is recommended, with plans to increase this threshold over time to encourage continuous improvement and innovation.

[Do you think incentives should be included to encourage emissions reduction in addition to a minimum eligibility threshold?](#)

Yes, additional incentives should be provided for fuels that exceed the minimum emissions reduction threshold, promoting greater environmental benefits and encouraging producers to adopt best practices and advanced technologies.

[Do you have views on the sustainability criteria under consideration as part of the criteria? What additional or alternative criteria would you want to see form part of the criteria??](#)

Additional criteria should include:

- Feedstock sustainability: Ensuring that feedstocks are sourced responsibly without impacting food security or biodiversity.
- Lifecycle analysis: Comprehensive lifecycle emissions analysis to account for all stages of production.
- Social and economic benefits: Assessing the broader social and economic impacts, including job creation and community benefits.

[What are the community benefits associated with LCLF production in Australia?](#)

LCLF production can lead to significant community benefits, including:

- Job Creation: Especially in regional areas, through the establishment of production facilities and supply chains.

- Health Improvements: Reduced air pollution from lower emissions fuels.
- Energy Security: Enhanced national fuel security by reducing reliance on imports.
- Economic Diversification: Providing new revenue streams for agriculture and other sectors.

What options should the Government consider in its regulatory impact analysis, such as a mandate introduced over time, low carbon fuel standard connected with a trading scheme, a non-binding target or other demand options?

Demand signals such as mandates and firm targets are likely to be necessary to overcome the competition that conventional fossil fuel suppliers will raise. Demand measures need to work hand in hand with measures such as the Safeguard Mechanism for covered facilities.

Mandates are one of the only ways that customers will understand the flow through to the end users. Mandates need to work across the market and not just in some areas. Such demand measures mean that competition will be equal across industry and not distort to lower cost (rather than lower emission) end users. A mandate designed such that a certain proportion of the fuel needs to be drawn from Australian produced LCLF would be preferable.

What demand-signals would best drive confidence and certainty for a domestic LCLF production industry?

The best method would be to develop clear standards such as the proposed paraffinic diesel fuel standard being developed by DCCEEW for renewable diesel, with use of fuels meeting relevant standards being mandated over time.

How might demand measures interact with the Safeguard Mechanism for covered facilities?

So long as there is sufficient product present in the marketplace, the ability to purchase lower carbon fuels would assist those transport and logistics participants

Should design of a mandate, low carbon fuel standard, target or other demand option create requirements for a certain proportion of fuel use be drawn from Australian produced LCLF?

If a specific policy outcome is domestic fuel security, then yes, however there must be confidence that a viable domestic industry capable of producing a sufficient quantity of product will be present.

How would the introduction of demand side measures impact the feasibility of domestic production of LCLFs, and what impact would this have on the appropriate design of any production support?

Designed properly, demand side requirements should complement any production support incentives designed.

Conclusion

The transition to low carbon liquid fuels is a critical component of Australia's journey to net zero emissions. The Australian Logistics Council is committed to working with the Government and industry stakeholders to support the development and adoption of LCLFs. We believe that with the right policies and incentives in place, Australia can build a thriving domestic LCLF industry that supports both economic growth and environmental sustainability.

We look forward to continued collaboration and thank the Government for the opportunity to provide input on this important initiative.