

BCA

Business Council of Australia

BCA Submission

Low Carbon Liquid Fuels – A
Future Made in Australia

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Overview

The Business Council of Australia (BCA) welcomes the opportunity to provide a submission to the Australian Government's Low Carbon Liquid Fuels Consultation Paper.

We note that the low carbon liquid fuels (LCLF) industry has been identified as a priority under the Government's Future Made in Australia (FMIA) agenda, for the following reasons.

- The key role LCLFs could play in Australia's net zero transformation across multiple sectors.
- Australia's potential competitive advantage in domestic LCLF production
- The need for public investment in order to align economic incentives with the national interest and unlock private investment at scale.
- LCLFs broader role in strengthening Australia's industrial capabilities and job creation, particularly in the regions.
- Existing private sector interest in investing in LCLF production in Australia and expressions of interest from commercial customers.

The FMIA agenda reflects the balanced intent of the Government to craft an Australian response to the US Inflation Reduction Act, as called for by the BCA. Australia should respond if other nations are taking significant action to attract investment. Ideally, this is achieved by learning from the errors made in other programs and getting the investment fundamentals right. As with any policy though, there is a need for firm and clear guardrails to ensure the policy is a success, there is judicious use of taxpayer dollars, and to deliver a sustainable and enduring policy agenda that allows businesses to plan confidently.

The BCA has previously proposed a set of guardrails to help select priority industries and develop any policy response.

- All investments must be expert led, with expert advice provided to government as the origination point.
- The process must be open, transparent, evidence based and unimpeachably independent.
- It should be carefully targeted and avoid parameters which can be broadly interpreted.
- There must be the scope to withdraw, or limit, funds based on outcomes being missed or achieved.
- We must not invest in projects that can stand alone with private investment, or those which will never be stand-alone without government support.
- All our investments must be in areas in which we have a comparative advantage and where the investment helps those projects get to market faster, or there is clear national interest in making that investment.¹

Just as Australia cannot sit still while other countries increase their incentives, nor can we sit still while they are growing their competitiveness at a foundational level. To reinvent our economy we must, as a point of national urgency, become a more competitive place to do business. This requires a focus on getting the fundamentals right to make Australia an attractive investment destination through reform of our tax system, easing the burden of regulation, a streamlined project approvals process, a high quality skills and education system, a managed migration program, a streamlined foreign investment screening regime, and improvements to the workplace relations system. Getting these fundamentals right will spur innovation and lift productivity.

¹ https://www.bca.com.au/keynote_address_to_the_business_hunter_annual_summit_2024

Key takeouts

- A well designed support framework is one that results in a domestic LCLF industry that creates additional jobs, is internationally competitive and grows to become an enduring part of Australia's future industrial capabilities.
- A well designed support framework is needed to enable facilities and sectors where it is difficult to substitute fuel demand to make a greater contribution to emissions reduction, supporting Australia's overall commitment to achieve net zero emissions by 2050.
- Australia has strong grounds for long term comparative advantages in the production LCLFs but we risk losing this opportunity forever if a well designed support framework takes too long to implement.
- Once implemented, it is crucial that the support framework is stable and durable to give investors the confidence to take on the risk associated with large, long lived capital investments in new technologies.
- Australia is already a competitive producer of the feedstocks used for LCLFs and feedstock costs are a primary driver of the total costs of producing LCLFs.
- However, difficulties in collecting and aggregating sustainable feedstocks, extra processing steps, and lack of scale in production drive higher LCLF production costs compared to conventional fuels.
- The effective rate of assistance for LCLFs should be guided by the long run scale of production (cost and price) being targeted in order for Australia's industries to be internationally competitive.
- Production tax incentives delivered via the tax system are likely to be the most effective form of support for scaling up of production of LCLFs in Australia.
- A minimum emissions reduction threshold should be the starting point for defining eligibility criteria for LCLFs to receive support under a production incentive program.
- The Guarantee of Origin Scheme should provide a consistent basis for emissions and sustainability criteria for all FMIA support programs (including LCLFs) and the scheme should include a broader set of sustainability factors, such as impacts of land use change.
- Caution should be exercised in implementing the community benefit principles to ensure that they do not create overlapping obligations related to workplace relations, skills, and diversity, which could potentially diminish the attractiveness of the support framework and the competitiveness of eligible projects and facilities.
- Demand side policy measures should work hand in glove with supply side policy measures to deliver the appropriate effective rate of assistance to eligible LCLF projects and facilities.

Main points

The low carbon liquid fuels opportunity

Global demand for LCLFs is expected to grow in the medium term to service the decarbonisation needs of the transport, construction, mining and agriculture sectors.

Australia's large landmass, temperate climates, advanced farming practices, access to renewable feedstocks, established supply chains and renewable energy potential are favourable to scaling a domestic sustainable aviation fuel and renewable diesel industry.

Australia is already a competitive producer of the feedstocks used for LCLFs and feedstock costs are a primary driver of the total costs of producing LCLFs. However, difficulties in collecting and aggregating sustainable

feedstocks, extra processing steps, and lack of scale in production drive higher LCLF production costs compared to conventional fuels.

The private sector's interest in investing in LCLF production at scale in Australia, including interest from commercial customers, is well advanced. However countries, including the United States, the European Union, Japan and Singapore, have implemented their own policies to support increased consumption and production of LCLFs.

Some of these nations are further ahead in building domestic LCLF industries with the potential to export their output to other countries, including Australia, and gaining economies of scale and strong international competitiveness as a result.

In addition to designing an appropriate mix of policy levers, the effectiveness of Australia's approach depends crucially on establishing and implementing support in a timely manner. If the policy framework in Australia takes too long to develop and lock in, Australia risks losing this opportunity forever.

Once developed and locked in, the support framework also needs to be perceived as stable and durable to give investors the confidence required to make large, long lived capital investments. If the support framework in Australia is perceived (upfront) as lacking stability and durability, then its ability to derisk projects and enable them to reach the financial investment decision will be weakened.

Options to support domestic production

Insufficient alignment of decarbonisation and economic incentives currently poses a barrier to the development of Australia's LCLF industry. A support framework that better aligns production and demand signals could create the conditions for commercially competitive production of LCLFs at scale in Australia.

BCA member companies will provide individual submissions on the nature of support and incentive measures for particular LCLF production pathways.

At a high level, a well designed support framework would achieve the following.

- Enable facilities and sectors where it is difficult to substitute fuel demand to make a greater contribution to emissions reduction, supporting Australia's overall commitment to achieve net zero emissions by 2050.
- Result in a domestic LCLF industry that creates additional jobs, is internationally competitive and grows to become an enduring part of Australia's future industrial capabilities.
- Avoid imposing explicit local content requirements that increase the costs LCLF production and therefore raise the total level of support required — notwithstanding the application of sensible community benefit sharing principles.
- Not disincentivise producers of LCLFs from selling their output to export markets — notwithstanding the importance of local value adding as a key benefit from supporting LCLF industries.
- Not undermine Australia's ability to continue to capitalise on its other comparative advantages in agriculture and food production.

Appropriate calibration of the effective rate of assistance from support and incentive measures is complex to determine. The effective rate of assistance for LCLFs should be guided by the long run scale of production (cost and price) being targeted in order for Australia's industries to be internationally competitive.

Production incentive scheme options

Production tax incentives delivered via the tax system are likely to be the most effective form of support for scaling up of production of LCLFs in Australia.

- A production tax based approach can be applied simply to all existing and new entrant projects that meet the eligibility criteria.

- A production tax based approach does not require the added auction or merit based selection process that competitive grant based approaches typical do — which means an eligible project proponent can embed the incentive in its business case without waiting for the outcome of lengthy expressions of interest / auction processes.
- A tax incentive would enable uniform access across eligible entities and provide strong certainty that the support would be delivered as legislated.
- It could be designed as a refundable tax offset that is time limited with defined eligibility thresholds for the production of LCLFs.
- An appropriate duration is up to ten years per project, between 2026-27 and 2039-40 (for projects that reach final investment decision by 2030-31).
- The benefits of using a competitive grant based approach are unclear given the structure of projects in Australia — characterised by a small number of projects (currently) which are typically at different stages of development and tracking along different readiness timelines.

Emissions and sustainability criteria

An emissions reduction threshold should be included as part of the eligibility criteria for LCLFs to receive support under a production incentive program. Defining a minimum threshold for emissions reductions relative to conventional liquid fuels would be an appropriate starting point.

Determination of a minimum threshold should consider the following factors.

- Setting a high minimum threshold initially may exclude projects with the capacity to contribute to Australia's emission reductions goals (at least in the interim).
- A minimum threshold that is less stringent in the interim may be appropriate to enable second generation feedstocks to be developed in the early phases of the support framework.
- Economic and geographic conditions will favour the production of some LCLF feedstock sources over others which means Australia's eligibility criteria may reasonably differ from those used in other jurisdictions.
- Some form of scaling (incentive loading) for emissions reductions above the minimum threshold would provide a long term investment signal to drive investment towards the highest green and environmental standards in domestic LCLF production.
- The potential of emerging waste and biomass based feedstock sources should be evaluated alongside more established feedstocks sources.
- The full life cycle emissions associated with LCLF production compared to convention liquid fuels production.

The Guarantee of Origin Scheme should provide a consistent basis for emissions and sustainability criteria for all FMIA support programs (including LCLFs) and the scheme should include a broader set of sustainability factors, such as impacts of land use change. In particular there needs to be a robust emissions accounting methodology to account for *indirect* land use change, which can occur when pasture or agricultural land previously destined for food and feed markets is diverted to LCLF production.

Australia's emissions accounting methodology should be harmonised and interoperable as far as practicable with frameworks and methodologies adopted by our trading partners.

Principles for community benefit sharing

We note that FMIA Community Benefit Principles are being designed and incorporated into the Hydrogen Production Tax Incentive and the Critical Mineral Production Tax Incentive.

Under any FMIA support program there is a risk that the costs of compliance with overly onerous Community Benefit Principles could undermine the efficiency and competitiveness of eligible projects and limit the field of eligible projects.

BCA members are already taking significant steps to develop skilled and inclusive workforces and to create safe, secure, and well-paid jobs in the energy sector. There is also considerable work underway in reskilling and retraining the energy workforce through the Net Zero Economy Authority. Therefore, the BCA believes that caution should be exercised in implementing the community benefit principles to ensure that they do not create overlapping obligations related to workplace relations, skills, and diversity, which could potentially diminish the attractiveness of the support framework and the competitiveness of eligible projects and facilities.

In light of the investigations now underway into the alleged unlawful behaviour linked to taxpayer funded projects and union agreements by the Construction, Forestry and Maritime Employees Union, it would be concerning if there is a requirement for union approved agreements as part of the Community Benefit Principles. Inserting this type of criteria into contracts risks creating the environment for unlawful behaviour to flourish.

Design of demand side measures

One of the key challenges of achieving commerciality is aligning sufficient offtake agreements with feedstock providers with demand for LCLFs, at a scale that helps to support establishing a production facility.

We note and support that the Australian Government has committed to undertake a regulatory impact analysis of the costs and benefits of introducing demand side measures for LCLFs. This regulatory impact analysis needs to be as rigorous and comprehensive as possible to ensure that the most effective options can be identified.

Demand side policy measures should work hand in glove with supply side policy measures to deliver the appropriate effective rate of assistance to eligible LCLF projects and facilities. This means support and incentive measures delivered on the production side should be calibrated together with applicable demand side measures and not developed in isolation.

Demand side measures should be designed and implemented as follows.

- In parallel with production side measures and announced as soon as possible to build the confidence necessary for customers, project investors and financiers to take committed action, and in particular for the critical mobilisation of feedstock sources which often have long lead times.
- Aligned across all LCLF user segments including non-transport sectors and hard to abate sectors such as aviation and maritime.
- Based on the carbon intensity of consumption rather than the volume of consumption because this allows customers to select the least cost LCLF to meet a given objective.
- Based on a market driven, technology agnostic approach that enables different LCLF production pathways to compete.