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Chevron Australia Downstream submission in response to *A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity* consultation

For the attention of the Low Carbon Liquid Fuels Consultation Section,
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Chevron Australia Downstream (Chevron) appreciates the opportunity to provide comment to the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (the Department) on the *Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity* consultation paper.

Chevron broadly supports the Department's plans to set out a credible pathway towards enabling a market in Australia that would give consumers access to reliable, secure and affordable supply of lower carbon liquid fuels.

Background

Chevron Corporation is one of the world's leading integrated energy companies and has been present in Australia, via its Australian subsidiaries, for over 70 years.

Chevron Australia is the operator of the Gorgon and Wheatstone LNG and domestic natural gas projects in the north-west of Western Australia. In addition, Chevron Australia holds a one-sixth interest in the North West Shelf LNG Project. Through these preeminent Australian LNG and domestic natural gas projects, Chevron Australia is a major exporter of LNG and major supplier of domestic natural gas to the Western Australian market.

Chevron Australia Downstream, another Australian subsidiary of the Chevron Corporation, delivers quality fuel and lubricant products and services, including via its national network of Caltex service stations. Caltex – a brand owned by Chevron globally – has been present in Australia for more than 70 years.

Chevron Australia Downstream also owns and operates three product import terminals. It delivers products and services to a range of industries including mining, resources, agriculture, transport, marine and aviation. Specialist services include bulk fuel supply, oils and lubricants, fuel equipment solutions, customised fleet fuel card solutions and expert advice on fuel management and health and safety.

Chevron New Energies (CNE) was launched in 2021 to accelerate Chevron's energy transition strategy by growing lower carbon businesses. CNE is targeting harder-to-abate sectors where competitive advantages can be built over time and is focused on growing key businesses consistent with its strategy:

- Hydrogen;
- Carbon capture, utilisation, and storage (CCUS);
- Offsets and other emerging lower carbon opportunities; and
- Expanding opportunities in renewable fuels.

With the specific purpose of assisting Chevron in achieving its lower carbon ambitions and recognising Australia's potential to be a significant supplier of lower carbon energy, Chevron Australia New Energies Pty Ltd (CANE) was established in 2022.

With the acquisition of Renewable Energy Group in 2022, Chevron is also an international producer of lower carbon intensity fuels with a global integrated procurement, distribution and logistics network and biorefineries in the U.S. and Europe and nearly two decades of experience in producing and marketing lower carbon fuels.

The entities described above are collectively called Chevron for this submission. Chevron Australia is a member of Australian Energy Producers (AEP), the Australian Industry Greenhouse Network (AIGN), the Chamber of Minerals and Energy in Western Australia (CME), the Chamber of Commerce and Industry in Western Australia (CCIWA) and the Australian Hydrogen Council (AHC).

Chevron Australia Downstream is a member of Bioenergy Australia (BA), the Australasian Convenience and Petroleum Marketers Association (ACAPMA) and an associate member of the Australian Institute of Petroleum (AIP).

Chevron's position on Lower Carbon Liquid Fuels policy enablement

Key objectives

As an overriding objective, Chevron believes carbon pricing should be the primary policy tool for achieving greenhouse gas emission reduction goals. As Australia is currently not considering an economy-wide price on carbon, investment in lower carbon solutions could be accelerated with the support of targeted government policies.

Lower carbon liquid fuels can be enabled through a combination of lifecycle-based market policies, such as a low carbon fuel standard, infrastructure grants, tax credits, excise exemption for lower carbon-intensity fuels, and demand-side incentivisation. This would encourage competition with conventional fuels and stimulate market demand, giving confidence to investors and incentivising local production by addressing the economic differential between renewable and traditional fuels.

Chevron supports policies to increase renewable fuel production and imports, including renewable diesel, biodiesel, and sustainable aviation fuel (SAF). Incentive oriented biofuel policies should focus on maximum abatement per dollar spent. Incentives intended to advance specific sectoral performance targets should be designed to properly enable lower carbon solutions and be commensurate with technology maturity.

Policy that simultaneously drives demand and incentivises supply of renewable fuels will have the best chance to stimulate the business case for lower carbon alternatives in a highly competitive global environment, particularly for sustainable aviation fuel (SAF) and renewable diesel. Our experience in other markets shows that feedstocks and capital flow to policy-enabled markets. Ready-now imports are necessary to support the acceleration of demand in Australia, to incentivise and complement the development of a competitive domestic manufacturing market and ensure that the renewables market in Australia is stable and globally competitive.

We believe among the government's key objectives must be ensuring that a level playing field is maintained for all participants, including existing domestic producers, importers, and new market entrants so that a strong and viable renewable fuels ecosystem is quickly established.

Policy frameworks that limit technologies or impose rigid mandates are generally ineffective and can limit the growth of new industries. Carefully designed policy that promotes investment certainty, transparency, and competitive development and commercialisation of lower carbon solutions can be instrumental in growing imports, domestic industries and stabilising emerging markets.

Importantly, as experienced in other jurisdictions where such markets emerged successfully, importers have proven fundamental to the market's viability. Carefully designed policy can drive reliable imports to underpin and stabilise an emerging local market, providing assurance to investors and customers, while at the same time allowing a domestic manufacturing industry to develop, grow and become globally competitive.

Chevron's key recommendations

Recommendation 1

Chevron recommends well-designed policies that achieve emission reductions as efficiently and effectively as possible, at the least cost to the economy.

A balanced approach to energy focused on affordability, reliability and environmental protection is needed to meet growing demand. Lower carbon liquid fuels will play a key role in helping Australia transition to a lower carbon future, especially in hard-to-abate sectors.

To assist in a balanced transition, we support the enactment of government incentives until such time as true cost competitiveness emerges or consumer preferences support market prices that drive demand for lower carbon liquid fuels. Government policies should enable competitive development and commercialisation of low carbon liquid fuel products by allowing all market participants to compete on a level playing field basis.

Incentive oriented programs should be designed with the goal of ultimately enabling technologies and products to compete without government support. We support the reassessment of programs, including incorporation of established sunset dates, that enable policymakers to evaluate whether customer preferences and cost competitiveness warrant continued government support. Decisions regarding renewal of an incentive should be done on a technology and product neutral basis and in a transparent manner that considers program effectiveness. Incentive programs should not be altered, suspended, terminated, etc. prior to the established sunset date to provide investment certainty.

Recommendation 2

In the absence of carbon pricing as a policy tool, Chevron recommends tax incentivisation be extended to all market participants equally – domestic manufacturers and importers through production tax credits and equivalent import tax credits.

Chevron believes tax incentivisation could be one of the most flexible, equitable and fastest measures to enable and boost supply of renewable diesel and SAF in the Australian market. Tax incentivisation in the form of production tax credits for domestic manufacturers and equivalent import tax credits for renewable fuel importers would ensure equal treatment of all market participants, derisk long-term investment, and reduce complexity and cost. This incentive should be progressively phased out as the market strengthens and becomes more efficient and cost competitive.

Building up sufficient volumes of renewable diesel in the country in the initial years will be important to provide all participants, including local manufacturers, investors and customers the confidence that the market can become reliable and sustainable in the mid- to long-term. One of the fastest, most efficient and transparent ways this can be achieved, utilising domestic manufacturing and imported fuels is through tax incentivisation.

Recommendation 3

We strongly encourage government to prioritise demand-side incentives for renewable fuels to stimulate customer demand for these products.

Demand-side incentivisation will be time-critical in hard-to-abate sectors such as mining, transport, marine and construction. Encouraged by other government policy signals, customers in these sectors have been looking to renewable diesel to reduce their greenhouse gas emissions by up to 80%, especially those incentivised by the Safeguard Mechanism (and there may be an opportunity to examine how that policy tool could further incentivise the take up of renewable diesel).

Chevron is receiving regular inquiries from existing and potential customers in the mining and resources industry about renewable diesel availability. However, in the absence of an effective framework of incentives designed to promote long-term scalability, the current price difference between renewable and regular diesel makes the renewable product financially unviable for these customers.

Recommendation 4

Supply-side incentives must balance Australia's comparative advantage as a feedstock producer with supporting an open, globally competitive domestic renewable fuels market.

Australia has a comparative advantage as a feedstock producer and exporter, enabled through government policy settings in countries that have embraced lower carbon liquid fuels production. However, as Australia has limited and aged refining infrastructure, has no existing scalable renewable fuels production or capacity, and relies on fossil fuel imports to meet its existing fuel demand, it will take time to develop the necessary infrastructure and scale up to meet market needs from domestic sources.

To be effective and viable, domestic manufacturing must be carefully developed over time with balanced policies while the market for this fuel is underpinned by reliable, price-competitive import industry that is attracted to Australia as a competitive destination. In the absence of policy enablement this is unlikely to eventuate. The import industry should not be seen as competing with, but rather complimentary to, domestic manufacturing, particularly in the initial years as the market develops.

Chevron supports policies to commence at-scale renewable fuel imports and production in Australia. Incentive-oriented biofuel policies should focus on maximum abatement per dollar spent. Incentives intended to advance specific sectoral performance targets should be designed to properly enable lower carbon solutions and be commensurate with technology maturity.

Chevron would discourage the implementation of supply-side mandates. Poorly designed mandates in other jurisdictions have proven ineffective, costly, and an unnecessary administrative burden. In addition, volumetric mandates for fuels as a form of incentive can create distortions in the market, limit competition and discourage innovation.

Similarly, production subsidies that favour select participants could distort the market and compromise its long-term viability and independence. Instead, a more competitive and even playing field could be achieved through carefully balanced lower carbon liquid fuel standards linked to carbon intensity, where domestically manufactured renewable diesel will be advantaged over imported product.

New low carbon liquid fuels regulations should be technology-neutral and encourage all affordable and effective alternatives to compete in the marketplace.

Recommendation 5

Chevron believes that policies aimed at reducing greenhouse gas (GHG) emissions for products, services and activities should do so on a lifecycle emissions intensity basis and recognise reductions throughout the value chain.

Lifecycle analysis of GHG emissions intensity, prioritising the use of primary emissions data (i.e., site-specific data from the emitting entity) and encompassing all significant GHG contributors across the full value chain, is one of the most valuable methods to compare and differentiate the relative GHG performance for products, services or activities. Policies which follow this approach incentivise the most efficient producers and allow them to differentiate themselves in the market.

Policies aimed at reducing GHG emissions, including those that do so on a lifecycle emissions intensity basis, must still balance economic, environmental, and energy-security needs. The benefit of improving the lifecycle GHG emissions intensity of a product, service or activity should not be the sole factor in setting policy. Policies seeking to reduce GHG emissions must also account for and routinely assess economic, technological, and societal realities and feasibility to ensure any chosen policy is pragmatic and achievable. The benefits, costs, impacts and trade-offs for policies regulating GHGs should be transparently communicated to the public and be based on sound science, include accurate real-world data and information to the extent possible and be accompanied by rigorous analysis.

Recommendation 6

Chevron supports the responsible use of all feedstocks for lower-carbon, cost-effective fuels, lubricants, and chemicals to reduce lifecycle greenhouse gas emissions.

Chevron believes policy frameworks should evaluate the full range of trade-offs, including commodity and food costs, land use, supply availability, economic support for agriculture, and lifecycle emission reductions from transportation fuels and other chemicals.

Policies related to biomass-based fuels should incentivise reliable, affordable, and ongoing access to feedstocks in global, domestic, and local markets using a technology-neutral approach. This helps ensure the preservation of options and facilitates human ingenuity, market powers and innovation.

Chevron encourages the development of policies that allow all feedstocks to compete and stimulate innovation, without arbitrary prohibitions that are not supported by science-based analysis. Policies restricting access to feedstocks for fuel production, such as caps on seed oils, should generally be avoided as they can have the unintended consequence of limiting food and feed production, contributing to food insecurity, and restricting the ability to lower carbon intensity.

Recommendation 7

We support policies that incentivise investments in new and innovative crops considering all the associated benefits, including overall yields, decreased soil erosion, and reduced runoff.

Feedstock certification should be established with a supportive regulatory framework that is designed to be efficient, allow for expedient resolution of challenges, and enable approval utilising certified third-party support as quickly as reasonably possible.

Recommendation 8

Feedstocks should be evaluated and regulated using a technology neutral, lifecycle carbon intensity analysis to enable lower carbon solutions that are currently available in the market.

A full lifecycle analysis (LCA) maximises the cost-effective reduction of GHG emissions when compared with other less efficient approaches. Regulatory frameworks utilising LCA should:

- Support policy alignment across sectors and geographies that creates consistent carbon intensity accounting methodology which allows for scores to be updated with the best available science and reduces the complexity of complying with a patchwork of methodologies
- Consider the best available data prioritising the use of primary data, collected within a reasonably recent time period and subject to third-party verification, over default emissions estimates; and,

Ensure that crop to fuel pathways exist with accurate carbon intensity accounting based on the most current scientific approaches.

Chevron believes these recommendations strike an important and appropriate balance of policy settings to enable an open, robust, fair and competitive lower carbon liquid fuels market in Australia.

Thank you for the opportunity to provide our submission to this process. Should you wish to discuss this further, please do not hesitate to contact me.

Sincerely,

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