25 July 2024

Mr Jim Betts
Secretary
Department of Infrastructure, Transport, Regional Development, Communications and the Arts

Dear Mr Betts

Low Carbon Liquid Fuels – Consultation Paper

A proudly Australian company with balance sheet strength, Fortescue is a global leader in large-scale, ultra-efficient and highly complex developments with a proven track record in developing and operating assets in remote and isolated locations. Fortescue has a strong focus on decarbonisation, evidenced by its industry leading target to achieve real-zero carbon emissions across our terrestrial mining operations by 2030. Through our business unit, Fortescue Energy, we are establishing a global portfolio of renewable energy, green hydrogen and derivatives, battery system and green technology projects and operations that are at the forefront of the global energy transition.

Fortescue welcomes the opportunity to comment on the Low Carbon Liquid Fuels Consultation Paper. Sustainable Aviation Fuel (SAF) is an important market sector for Fortescue that will enable decarbonisation in the challenging-to-electrify aviation sector. While we recognise that bio-mass produced fuels such as bioSAF, are an important immediate option for sustainable liquid fuels, Fortescue suggests that this focus ought not to detract from the long-term need to consider pathways to 'Power to Liquid' fuels (PtL - renewable electricity to liquid fuel), also termed synthetic Sustainable Aviation Fuel (eSAF).

eSAF

As the decarbonisation efforts of the aviation industry scale up through industry ambitions and regulated action through policies such as the Safeguard Mechanism, the bioSAF sector may experience difficulties finding sufficient feedstocks to meet increased demand beyond a certain point. The CSIRO predicts this will occur between the years of 2030 and 2035 and when it does, it is critically important that there are established solutions available to begin to supply sustainable fuels to continue the decarbonisation trajectory[1]. For this to occur, investment and development in eSAF technologies and projects will need to occur in Australia well ahead of these pinch points in the 2030's.

[1] CSIRO, Sustainable aviation fuel opportunities for Australia, August 2023, available at https://www.csiro.au/safroadmap

The eSAF production pathway will be a critical industry that can build on the early decarbonisation achieved by the bioSAF industry. ESAF needs to be considered a priority by Government so that it achieves scaled production and reliable supply for the aviation sector by the time these fuels are needed as feedstocks and before biofuels reach their production limits and supply plateaus.

An integral input to the production of eSAF will be low-cost green hydrogen production available at scale, for which low-cost renewable electricity is a key input. The Commonwealth has announced significant support for the green hydrogen sector in the Hydrogen Headstart program and the Hydrogen Production Tax Incentive (HPTI) scheme, due to commence in 2027. Both government mechanisms will provide long-term commercial support to projects as the industry scales in Australia. However, challenges will continue as power prices remain high. Australia must transition away from fossil fuel usage in our electricity systems at pace to lower power prices.

Power to liquids technologies require a sustainable source of carbon dioxide as an input to the sustainable fuel production process. There are various means of sourcing CO2 for this process that vary in sustainability quality from waste CO2 from fossil fuel usage, which should be discouraged, to direct air capture which draws CO2 from the atmosphere but is very expensive. The Commonwealth should consider developing guidance for industry benefitting from access to public funds restricting the use of CO2 from sources that do not align with Australia's climate targets. For example, CO2 sourcing should not proliferate the use of fossil fuels.

Green market demand

Creating demand and providing incentives for consumers to fuel switch and invest in modern technologies will be critical to achieving our decarbonisation objectives in Australia. Stimulating this demand could be achieved by forcing action from consumers or by incentivising certain procurement, or, using 'carrots or sticks' to drive change.

The Safeguard Mechanism is one such example where decarbonisation is driven by mandatory reduction targets that must be met by industrial facilities year on year. The mechanism covers all emitting facilities above 100,000 tonnes a year, irrelevant of their emissions source and technologies available to them to decarbonise. While this policy requirement allows a technology agnostic approach to how these facilities decarbonise, it will take considerable time until the emissions reductions take effect and cause step changes in facility emissions. It will also not specifically target sectors that have technology available to decarbonise more readily.

The Government's proposed sector decarbonisation / transition plans and associated targets are a good approach to driving domestic decarbonisation. Direct sector specific mandates with associated incentives may be a more practical solution in the short to medium term for sectors that require further support or direction to decarbonise. Such a policy would likely require support from the Commonwealth to assist these sectors with capital intensive upgrades to fuel switch. There are several mandate policy examples internationally the Commonwealth could draw from to shape this policy. The European Union SAF mandate

requires that 2% SAF be used in 2025 scaling to 63% by 2050[2]. Importantly, this mandate includes a sub-mandate for a specific portion of these fuels to be sourced from eSAF production pathways providing critical support for scalable eSAF beyond bioSAF. Fortescue strongly encourages the Commonwealth to consider a similar approach.

A sector targeted production tax incentive as noted in the consultation paper could also provide a quickly implementable, accessible and simple mechanism to provide industry wide support to early adopters seeking to decarbonise. The HPTI scheme and the Guarantee of Origin (GO) scheme provide solid foundations on which to build such a policy. If these options are considered, it is important that the production incentives are stackable with Commonwealth and State funding programs to ensure the best chance for commercial viability of projects.

Applying a sectoral approach to reduce emissions would in turn reduce the competitive disadvantage risk for companies in sectors such as the aviation sector by requiring that all companies decarbonise together. We note that the Safeguard Mechanism does cover the aviation sector and will support a degree of decarbonisation and SAF uptake. However, the baseline decline rate is only set until 2030 leaving considerable uncertainty for airlines seeking long-term decarbonisation plans. A sector mandate could provide industry certainty to invest in projects that will support long-term SAF supply chains across both the bioSAF and eSAF sectors.

Fortescue also suggests that the Commonwealth consider bilateral opportunities with New Zealand to cooperate on common SAF production standards/certification, regulation and green aviation routes. Similar production standards will allow companies, like Fortescue and many airlines, operating across these two regions to coordinate on infrastructure and production of eSAF for flights between Australia and New Zealand. Similarly, similar regulation would allow streamlined project development and refuelling operations for eSAF along this flight path.

A green route between New Zealand and Australia supported by both Governments and selected airlines would enable shared infrastructure, refuelling and planes to be designed and operated between two cities in each country. A green route is established where Governments, airports and airline operators commit, through regulation or voluntarily, to using a certain percentage of SAF along this route. This allows the airports and airline operators to focus their decarbonisation efforts on this route with infrastructure developed at each end of the route, making investments more efficient in the near term. This delivers industry learnings and allows consumer confidence in green fuels to be established.

[2] European Union Aviation Safety Agency, *Sustainable Aviation Fuels,* available at https://www.easa.europa.eu/eco/eaer/topics/sustainable-aviation-fuels#:~:text=The%20European%20Commission%20has%20proposed,would%20be%20required%20by%202030.

Removing fossil fuel disincentives

The Diesel Fuel Tax Credit (DFTC) is creating a disincentive for investment in decarbonisation of iron ore mining. This is because the repayment of the DFTC to diesel users reduces the business case for companies assessing their returns on decarbonisation projects.

The DFTC is currently 49.6 cents per litre, and this is creating an investment disincentive that outweighs the investment incentive intended to be created by the Safeguard Mechanism. The rate of the DFTC increases with twice yearly CPI indexation, with the next due in August 2024.

If it is not possible to change the DFTC at this time, a solution needs to be found to remove the disincentive by levelling the playing field between diesel and green energy to encourage early movers in decarbonisation.

One solution that would not affect others in industry, who are not ready to decarbonise, would be to introduce a payment equivalent to the DFTC for each litre of diesel displaced by an approved decarbonisation project. This approach would remove the disincentive created by the DFTC and allow early movers in decarbonisation to develop a business case to support the large investment required.

If the DFTC disincentive is not addressed, there is a risk that early movers will not be able to reach FID on decarbonisation projects of scale.

Thank you for the opportunity to comment on this consultation. [redacted].

Yours sincerely

Bronwyn Grieve
Director of Global Sustainability & External Affairs