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Low Carbon Liquid Fuels Consultation Secretariat
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Low carbon liquid fuels (LCLF) consultation paper submission

Sydney Airport (**SYD**) is pleased to provide a submission in response to the Low Carbon Liquid Fuels Consultation Paper (**the Consultation Paper**). As noted in our submission to the Aviation Green Paper, sustainable aviation fuel (**SAF**) is the primary pathway for the domestic aviation sector to credibly decarbonise. Without SAF, Australia risks being priced out of the global aviation network once emissions reductions strategies and carbon pricing begin to take effect on the international aviation industry. This would have a devastating impact on Australian tourism, business, trade and the economy more broadly.

While Australia is well placed to become a significant global producer of SAF and other renewable fuels, domestic production is dependent on the timely development of clear government policy to establish a local market and catalyse private sector investment in refining capacity. SYD notes the Australian Government's recent announcement of a new *Future Made in Australia Act* to anchor a coordinated package of reforms and initiatives to support the growth of new domestic industries. SYD particularly welcomes the identification of the low carbon liquid fuels (**LCLF**) industry as a priority sector for industry growth through the legislative package.

SYD supports the Government's legislated target of 43 per cent emissions reductions by 2030, and Net Zero by 2050. As an organisation, we are also committed to reducing emissions and are actively exploring opportunities to accelerate our own Net Zero (Scope 1 and 2 emissions) by 2030 target. It is the reduction of our Scope 3 emissions, however, that will have the most positive impact to the sector and contribute to the Government's own targets. Unfortunately, there is no clear path to doing so without a domestic SAF industry.

The LCLF opportunity

As noted in the Consultation Paper, the domestic aviation sector is among those projected to represent close to 20 per cent of Australia's emissions out to 2030, by which point Australia has committed to have reached emissions levels of 43 per cent below 2005 levels. It is widely understood that electrification and renewable hydrogen will not be viable options for decades to come, and so LCLFs, specifically SAF, will remain the primary pathway to decarbonisation until around 2050.

The CSIRO's Sustainable Aviation Fuel Roadmap (2023) notes that Australia's large landmass, temperate climates, advanced farming practices, access to renewable feedstocks, established supply chains and renewable energy potential are all assets in developing a range of feedstocks to support a domestic SAF and renewable diesel industry. As per the Consultation Paper, a domestic LCLF industry could potentially support between 10,700 – 28,100 additional jobs by 2030, and 13,400 – 35,300 additional jobs by 2050, with at least one in four expected to be located in regional areas. In 2022 alone, Australia exported 400 kilotons of tallow and approximately 3.4 million tonnes of canola seed to Europe, demonstrating the nation's ability to competitively produce feedstocks for the production of LCLFs.

SYD welcomes the opportunity to provide input to Government on both supply and demand-side options to support a domestic LCLF industry. The Australian Government needs to set a clear, articulated objective for LCLFs, including SAF, that is underpinned by global best practice policy mechanisms as set out below.

Government should play an active role in supporting the development of a domestic LCLF market

Without domestic production incentives, feedstock and biofuels will continue to be exported for a higher return. Government should ensure that Australian feedstock is prioritised for use in SAF production and catalyse industry

uptake with a volume-based target for domestic SAF sales – at least until such time as a mandate is set.

Over the long term, and once a domestic SAF industry has matured, Government could consider the addition of carbon intensity requirements to SAF usage targets. Doing so would encourage refiners to optimise their feedstock supply chains and pursue actual life cycle carbon assessments (i.e., under the International Civil Aviation Organisation Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), as has been observed in the United States, or the more current GREET framework, as has been observed in Canada).

The development of a LCLF certification framework

A LCLF certification process should be developed through expansion of the Guarantee of Origin Scheme to track and verify emissions from the production of LCLFs. The LCLF certification process should include emissions reduction thresholds which increase over time as part of the eligibility criteria for LCLFs to receive support under a production incentive program. It is important that emissions reduction thresholds are initially set with the aim of maximising the portfolio of Australian feedstocks eligible for use in LCLFs to allow for the rapid establishment of an Australian LCLF industry.

Sustainability criteria for Australian-produced SAF should also be developed, ensuring interoperability with international schemes such as the CORSIA Sustainability Criteria for CORSIA Eligible Fuels, and adapt CORSIA lifecycle assessment (**LCA**) methodologies for feedstocks produced in Australia to better reflect Australian LCAs.

Implementation of a transparent market for trading LCLF credits

An efficient and credible LCLF market is needed to support the trading of LCLF certificates generated within Australia by producers.

Changes to the National Greenhouse and Energy Reporting (**NGER**) Act and Safeguard Mechanism should be introduced to enable the LCLF trading mechanism to exist. Whilst a SAF emission factor is now available in the NGER Scheme to enable an airline to claim Scope 1 emissions reductions through combustion of SAF, this approach only recognises the physical fuel throughput in an airport's jet fuel infrastructure (location-based accounting methodology) and not any trading of LCLF certificates that may exist in the future (market-based accounting methodology). A market-based approach would result in a more streamlined and pragmatic method of enabling a reduction in an airline's Scope 1 emissions and an airport's Scope 3 emissions through trading of LCLF certificates and accelerate SAF adoption. Any such system should be transparent to enable an airport to have access to the data for their Scope 3 emissions inventories.

The development of a domestic book and claim system should also be considered to track chain-of-custody of LCLF certificates that will be generated and traded within Australia to support a domestic production industry. This system should aim to integrate into any international book and claim systems in the future, once Australian produced SAF is internationally competitive.

Establishment of supply-side (incentive) policy measures

Incentive-based solutions are essential to develop domestic SAF refining. As we are seeing globally, targeted incentives (such as production tax incentives) are proving effective in closing the gap between global incentives. SAF supply is the most critical Scope 3 decarbonisation lever available to Australian airports.

SYD suggests that the Government introduce production tax incentives to support domestic SAF production over other forms of incentives. Production tax incentives provide a direct incentive to produce LCLFs with a predictable benefit correlated with the emissions intensity of a fuel. Production tax incentives will result in tangible emissions reduction; encourage behaviours across the supply chain to innovate; and can represent a range of risk sharing outcomes between industry and Government.

There should exist different rates of incentives to support SAF production over renewable diesel, or certain proportions of production volumes prescribed towards SAF, given it is cheaper to produce renewable diesel. Doing so would be proportionate to the role SAF will play in an airport's Scope 3 emissions reductions, and subsequently

the nation's carbon emissions reductions. Whilst renewable diesel will support an airport's Scope 3 emissions reduction (e.g., through use in airport ground support equipment or construction plant and machinery), the use of SAF will have by far the greatest impact on emissions reduction over time, particularly given electrification of such equipment is also expected to occur.

There will remain a role for fixed-grant amount incentives, such as the ARENA SAF Funding Initiative, to support the development of domestic SAF production from renewable feedstocks. SYD supports their continuation as a domestic industry is established.

Establishment of demand-side mandates

SYD supports the establishment of demand-side mandates such as a SAF Supply Mandate or Fuel Carbon Intensity Standard in line with industry best practice to provide market certainty and incentivise uptake of LCLFs.

Any demand-side mandates would need to be supported by an emission intensity compliance program administered under the NGER Scheme and should ramp up over time. Carbon intensity requirements for SAF must balance the dual objectives of utilising a broad portfolio of Australian feedstocks to catalyse refining capacity and applying downward pressure on SAF carbon intensity over the long term through feedstock and supply chain enhancement. The aim would be to prevent perverse outcomes of Australian feedstocks being exported and SAF produced overseas and then imported back into the country.

Demand-side interventions should deliver appropriate volumes of SAF relative to other LCLFs, giving regard to the additional costs associated with producing SAF, its premium to fossil jet fuel, and the acute lack of alternate decarbonisation pathways for medium and long-haul aviation.

SYD appreciates the opportunity to share the above input for the Department's consideration. [redacted]

Kind regards,

Karen Tompkins
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