



Australian Government

**Department of Infrastructure, Transport,
Regional Development, Communications, Sport and the Arts**

Cleaner Fuels Program

Policy Design and Engagement Paper

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Acknowledgement of Country

First Nations people have the oldest continuing cultures in the world. It is fitting to reflect on the thousands of generations of traditional knowledges that First Nations people hold, and generously share.

We acknowledge the diversity of First Nations cultures, languages and practices across the country and the resilience of First Nations people in keeping these alive. In delivering this policy design and engagement paper, we recognise the importance of listening to the voices and perspectives of local First Nations people and responding to the uniqueness of each place.

We thank First Nations people for their continuing custodianship of, and care for, the Country that we live and work on today.

Overview

The Australian Government has committed to fast-tracking a domestic low carbon liquid fuel (LCLF) industry, as part of its Future Made in Australia agenda. On 17 September 2025, the Government announced a new \$1.1 billion Cleaner Fuels Program (the Program) to encourage domestic production of LCLF, while strengthening fuel security and supporting new jobs in the net zero economy.

The Program will provide production-linked incentives over ten years and target support toward LCLF projects that are advanced in development, progressing towards a final investment decision and targeting production in the near future. It builds on the Government's current support for LCLF through the Sustainable Aviation Fuel Funding Initiative, Future Made in Australia Innovation Fund, and expansion of the Guarantee of Origin Scheme to include LCLF. The Government is also engaging with industry on how to make sure Australian liquid fuel users have a fair chance to capture the emissions reduction potential unlocked by low emission Australian fuels.

The Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts (DITRDCA) is commencing engagement with the market on the policy design of the Program, with support from the Australian Renewable Energy Agency (ARENA) and the Department of Climate Change, Energy, the Environment and Water (DCEEW).

This Policy Design and Engagement Paper (Paper) presents an overview of the Program and provides an opportunity for stakeholders to provide input into the key design principles and framework of the Program. Channels for providing feedback are outlined in the "How to respond" section below. This policy design and engagement process builds on previous consultations on LCLF, including the DITRDCA-led consultation in July 2024 on *Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity*, and the ARENA-led consultation earlier this year on Future Made in Australia Innovation Fund (see details at Appendix A).

Policy Objective and Goals

The policy objective of the Program is to catalyse domestic production of LCLF through providing production incentives to projects that will contribute to the following primary policy goal:

- Establish domestic, commercial-scale production of LCLF in Australia, with a view to stimulating further private investment in the domestic industry.

Projects are also encouraged to contribute to secondary policy goals, as outlined below.

- Accelerate domestic decarbonisation in hard-to-electrify sectors.
- Create new job and economic opportunities across the domestic LCLF supply chain, including regional and First Nations communities.
- Improve Australia's sovereign liquid fuel capability and security by diversifying Australia's liquid fuel use and mitigating risks to global supply chain disruptions.

The Program supports the Government's Future Made in Australia agenda. As part of this, the Program will apply the Community Benefit Principles (see Appendix D) to ensure public investment and the private investment it attracts flow to communities in ways that benefit local workers and businesses.

Policy Design Engagement Process

This Paper provides information and seeks feedback on the design features of the Program.

The information outlined in this Paper is indicative only and intended to solicit feedback from stakeholders during the policy design and engagement process. It should not be taken to represent final design features of the Program, nor necessarily represent the views of the Australian Government. The final Program design will be informed by feedback provided through this policy design and engagement process and may differ to the parameters outlined in this Paper.

Indicative Timeline

Following the conclusion of the policy design and engagement period and finalisation of the Program Guidelines, it is anticipated that the Program will open in mid-2026. The timeline set out below is indicative only and subject to change.

Stage	Anticipated Timing
Policy design and engagement period opens	13 November 2025
Written submissions due	19 December 2025
Program design period	December 2025 – early 2026
Program launch and applications open	Mid-2026

How to Respond

DITRDSCA requests feedback from stakeholders on the questions contained within this Paper. Feedback can be provided through the following methods:

- Making a written submission through the [DITRDSCA's Cleaner Fuels Program webpage](#).
- Responding to the surveys available on the DITRDSCA's Cleaner Fuels Program webpage, including a [survey](#) with the questions outlined in the following 'Policy Design Engagement Information' section, and a [survey](#) with the questions in Appendix C – Project Details Form.

Please note that information from responses will be treated as confidential. Responses will only be shared with other Australian Government entities such as DCCEEW and ARENA to the extent necessary to inform the development of the Program. While feedback is confidential, DITRDSCA may (at its discretion) publish an overview of the findings from the policy design and engagement process. This publication would be general in nature and would not reference any respondents by name or present any commercially sensitive information.

Policy Design Engagement Information

Issues	Explanation
1. Eligible fuels	Stakeholder feedback from the previous consultations indicated general support for sustainable aviation fuel (SAF) and renewable diesel (RD) as the highest priority LCLF for production incentives. Question 1.1: Which LCLF should be eligible under the program and why? Previous consultations also revealed different stakeholder views on whether certain types of LCLF should be prioritised over others. Some stakeholders suggested that

Issues	Explanation
	strategic prioritisation should be given to sectors most dependent on LCLF for decarbonisation, such as aviation, noting that product-neutral financial mechanisms might favour RD over SAF due to cost differences. Other stakeholders stated that the simplest and most efficient support mechanism would be fuel-agnostic, letting the market decide which types of LCLF would be produced. Question 1.2: <i>Should certain types of LCLF be prioritised over others?</i> <i>Should LCLF suitable for particular sectors or uses be prioritised? For example, should sustainable aviation fuel be prioritised over renewable diesel?</i> <i>Should LCLF for certain sectors or uses be de-prioritised due to other viable decarbonisation pathways?</i> <i>What market impacts are anticipated by influencing prioritisation of particular fuel types?</i>
2. Type of production support	The Program intends to use a competitive process to ensure value is delivered with the available funding and enable benchmarking of the amount of funding needed to enable a facility to progress to production. Stakeholder feedback from the previous consultations indicated a preference for fixed grant-based funding as capital expenditure support and for a production incentive as operating expenditure support. For the Program, production-linked incentives are preferred to upfront grant payments, as producers will not receive payment until production has been delivered, reducing the risk to taxpayers. Previous consultations identified two broad options for providing production credits: • Fixed production support: Producers will be paid a fixed amount of production incentive for each litre of LCLF produced, with the amount determined through a competitive process to ensure best value-for-money. • Contract for Difference mechanism: A strike price for each litre of LCLF produced is determined through a competitive process. If the strike price is higher than the international LCLF price, producers are paid the difference (or a portion of) for each litre of LCLF produced. If the international LCLF price is higher than the strike price, producers are required to pay the government the price difference (or a portion of). Another important theme from the previous consultations was to adjust production support as the market matures and industry becomes self-sustaining, while maintaining long-term policy certainty. That is, reducing the production incentive over time. Question 2.1: <i>Should the production credit be a fixed amount per litre of production, or a variable amount that depends on the market price of LCLF?</i> <i>Are there any potential benefits, risks or constraints considering the two different production credit options?</i> <i>What outcomes do you think can be delivered with the available funding?</i> <i>What type of mechanism provides the greatest investment certainty or level of bankability to projects?</i> <i>How can this support be structured to prevent substantial upside to producers?</i> <i>How do you consider pricing for LCLF will be set over the short-medium term and longer term? Will pricing be matched to a premium on equivalent fossil fuel or price of imported LCLF or be on a carbon abatement basis?</i>

Issues	Explanation
	Previous consultations indicated that some stakeholders preferred a volumetric approach, supporting linking production credits to the quantum of LCLF produced. However, other stakeholders emphasised the importance of considering lifecycle emissions as part of any production support scheme, hence preferring to link production credits to lifecycle carbon emissions reduction by LCLF. Question 2.2: <i>To deliver the policy intent of the Program while maximising the value for taxpayers, do you agree that projects with the lowest cost should be prioritised under the Program, with the cost being measured either as per unit of LCLF produced or as per unit of carbon emissions abated?</i> Question 2.3: <i>Should the production credit be linked to the quantum of LCLF produced, or the carbon emissions saving potential of the fuel?</i> A key market failure that the Program seeks to overcome is the first mover disadvantage, where the first producer generates positive externalities to other producers that cannot be captured via market mechanisms alone. The production support aims to address this issue, and the total value of production credits for each project is not expected to exceed what is needed to overcome the first mover disadvantage. Question 2.4: <i>What are your views on the cost to deploy LCLF domestically compared to internationally? Is there a local premium for domestic production?</i> Question 2.5: <i>Should the total value of production credits be capped for each project? If yes, what should the capped amount be and why?</i> Question 2.6: <i>Should production be focused on domestic supply only or should export also be permitted? What impact could restriction have for projects or the market?</i> Question 2.7: <i>Is there a role for combined production support with capital grants for first-of-a-kind facilities?</i> Question 2.8: <i>What other types of funding or concessional finance could support LCLF projects (e.g. funding from CEFC and NRF)?</i> Question 2.9: <i>Is any other support required across the supply chain to enable domestic production of LCLF?</i> Question 2.10: <i>What lessons can Australia learn from other jurisdictions that have already implemented LCLF production support measures?</i>
3. Fuel production	The Program aims to support projects at a mature stage of development and late-stage Technology Readiness Level technologies that can deliver meaningful volumes of LCLF to the market to help decarbonise hard-to-electrify sectors. Question 3.1: <i>Considering this objective, what production pathways should be focused on or prioritised?</i> <i>Should priority be given to projects that use more-established production pathways (e.g. HEFA and HVO) than nascent production pathways that may present a higher level of technology risk?</i> <i>How can nascent production pathways compete with more-established production pathways (e.g. HEFA and HVO)?</i> <i>What minimum stage of project development (and evidence) should be expected by projects under the program?</i> Question 3.2: <i>Should there be a minimum facility size to be eligible?</i>

Issues	Explanation
	Not all LCLF decarbonise equally, with some types of LCLF providing greater lifecycle emissions reduction than others. Previous consultations revealed overwhelming stakeholder support for including a carbon emissions reduction threshold as one of the eligibility criteria for production support. Most stakeholders agreed with a 50% emissions reduction threshold across the lifecycle of LCLF compared to a fossil equivalent, noting this was broadly in line with other jurisdictions around the world that have provided production support. However, concerns were also raised that some of Australia's most prospective feedstocks for LCLF, such as canola, might not meet the 50% threshold in the short term. Stakeholders also noted the importance of aligning Australia's approach to measuring lifecycle carbon emissions of LCLF with international approaches, including through the Guarantee of Origin Scheme's expansion to include LCLFs. Question 3.3: <i>Should LCLF be required to meet a carbon intensity threshold (% carbon intensity reduction compared to fossil equivalent) to be eligible for the program? If yes, what would be a reasonable threshold, and how should that threshold be calculated and verified? If not, why not?</i> <i>If the production incentive is based on carbon emissions reduced, rather than volume of LCLF produced (see Question 2.3), is a minimum carbon intensity threshold still needed as part of the eligibility criteria?</i> <i>Should Indirect Land Use Change be included in the method for determining carbon intensity, for the purpose of the Program?</i> <i>Should any feedstocks be prioritised or otherwise considered out of scope?</i> Previous consultations indicated strong support for including sustainability criteria beyond emissions reductions in any production support scheme. Many stakeholders called for a comprehensive sustainability framework, including environmental and social criteria, aligned with existing laws and regulations. They also highlighted the need for careful management of LCLF production to avoid competition with food and fibre production and water usage, while ensuring biodiversity. Question 3.4: <i>Other than carbon intensity, should any other sustainability criteria be included?</i> Question 3.5: <i>Which international and domestic sustainability schemes should be allowed to verify sustainability claims?</i> An example of the production incentive design is provided at Appendix B, based on the program design issues outlined hereinbefore. This example is for information purposes only and subject to change depending on the final design of the Program.
4. Other policy considerations	In addition to the major design elements outlined above, consideration will also be given to policy issues, such as knowledge sharing and factors affecting the merit of a proposal, to ensure that the Program will best achieve its policy intent and goals. Proposals are expected to demonstrate merits in line with the policy objective and goals outlined previously in this Paper. Examples may include: • Carbon emissions reduction potential: how well the project contributes to decarbonising sectors reliant on liquid fuel use; for example, the total amount of emissions abated by the LCLF produced, where this abatement would occur, and the relative importance of this abatement to the sectors achieving net zero.

Issues	Explanation
	• Economic benefit: how well the project contributes to new economic and regional development opportunities. Consideration may be given to a range of indicators, including but not limited to new jobs for regional Australia, better economic opportunities for First Nations communities, and diversified income streams for farmers. • Fuel security: how well the project contributes to Australia's sovereign liquid fuel capability and security. Consideration may be given to the extent to which the project helps to diversify Australia's liquid fuel use and mitigate risks to global supply chain disruptions. • Sustainability: how well the project meets sustainability criteria throughout its supply chain. Consideration may be given to potential environmental impacts (e.g. land use change), food security considerations, and competing feedstock uses, as well as the ability of the project to produce LCLF in the long-term without government support and to secure long-term access to feedstocks to enable continuing production of LCLF. • Supporting an efficient market: how well the project contributes to supporting an efficient market, such as the ability of the project to secure offtake agreements, enable price discovery, reduce barriers for future projects, and facilitate knowledge sharing. <i>Question 4.1: What are your views on the aforementioned factors affecting the merit of a proposal?</i> <i>Question 4.2: Recipients under the Program will need to deliver benefits according to the Community Benefit Principles under the Future Made in Australia Act (see Appendix D). How do you consider the Community Benefit Principles in relation to LCLF projects? Are there specific Community Benefit Principles that are more or less relevant?</i> <i>Question 4.3: How will overseas policy developments interact with domestic policy settings to support projects reaching final investment decisions? For example, LCLF demand-side targets or mandates, and international frameworks such as the International Civil Aviation Organisation long-term global aspirational goal for international aviation (LTAG) of net-zero carbon emissions by 2050.</i> <i>Question 4.4: In addition to production support, what other measures are considered critical to achieve final investment decisions for projects? What are their key features?</i> <i>Question 4.5: What are the intersecting policies you expect need to be considered to unlock a domestic LCLF production industry?</i> <i>Question 4.6: Is there any other feedback you would like to provide that isn't covered by questions above?</i>

APPENDIX A – Summary of Previous LCLF Consultations

Consultation on *Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity*

The Government consulted on *Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity* in July 2024. A total of 121 submissions was received on the LCLF Consultation Paper from more than 100 organisations, including:

- 14 submissions came from the agriculture sector
- 23 from heavy vehicle using industry members (construction, mining, ground transport)
- 17 from aviation stakeholders
- 3 from investment organisations
- 6 from maritime stakeholders
- 31 from energy or liquid fuel producers

The main points highlighted from this consultation:

- Supporting a domestic LCLF industry in Australia will have benefits including: increased fuel security, achieving government decarbonisation objectives, strengthening regional economies and diversifying income streams for farmers.
- On supply-side policy, the preferred measure is a hybrid of support to address the capital expenditure and operational expenditure for LCLF production facilities.
- On demand-side policy, a LCLF standard and the role of mandates was broadly supported.
- Submissions noted the importance of linking the supply and demand-side measure to the carbon intensity of fuels produced.
- Submissions noted that LCLF policy design should not affect existing federal net zero initiatives, such as the New Vehicle Efficiency Standard or the Safeguard Mechanism.

APPENDIX B – Example Production Incentive Design

Below is an example design of a production incentive. This example is for information purposes only – it is proposed that applicants be able to propose a production incentive design that meets their project needs (particularly for Variable 2). The delivery agency of the Program will reserve the right to negotiate the design of production incentives with applicants during the assessment process. This will help ensure an appropriate allocation of risk between the parties.

Variable	Indicative value
1. Payment frequency	Quarterly
2. Duration of contracted payment period	No more than 10 years (negotiated for each project)
3. Payment basis	Production incentives will be paid based on the volume of LCLF produced.
4. Payment value/profile	Fixed or variable amount per unit of LCLF produced, with a potential cap on the total funding amount, depending on the final design of the Program
5. Carbon intensity of proposed LCLF	The carbon intensity of production facility will need to be indicated and verified via an appropriate methodology.
6. Levelised cost of production	Recipients will be required to indicate their cost of production, requested level of production support and how they propose to bridge the economic gap of their production facility.
7. Evidence of production	The funding recipient will need to provide evidence of the volume of production to substantiate its invoice.
8. Targeted production	A targeted production level may be required subject to the final design of the Program.
9. Reporting requirements	Recipients will be required to report on the fulfilment of the Community Benefit Principles under the Future Made in Australia Act.

APPENDIX C – Project Details Form

To inform the design of the Program, we are asking stakeholders to provide information on projects under development that they consider may form the basis of an Application under the Program. Completion of the form is optional and will not be considered within any application to the Program, also noting that the information provided in this response may change over time. Please use Australian dollars exclusive of GST for any price or cost fields.

Please complete the form with respect to each Project you wish to apply for funding under the Program using the [form available](#) on the DITRDCSA's Cleaner Fuels Program webpage. If you are intending to submit applications for multiple projects, please complete a new form for each project. Please note all responses and information provided will be treated as commercial-in-confidence and will not be released publicly.

Question	Response
1. Name of project	
2. Project contact (name, position, and email)	
3. Project location (City, State)	
4. Project output (e.g. the types of LCLF to be produced)	
5. Proposed annual production capacity (ML)	
6. Lifecycle emissions reduction of LCLF produced (tCO ₂ /L)	
7. Main feedstocks (e.g. canola)	
8. Production pathways (e.g. HEFA)	
9. Primary end use (e.g. aviation)	
10. Current status of project development (e.g. front-end engineering and design, financial investment decision)	
11. If the project hasn't reached final investment decision, what is required to achieve this?	
12. Proposed date for construction commencement (mm/yyyy)	
13. Proposed date for production commencement (mm/yyyy)	
14. Cost of project (\$million)	
15. Estimated cost of product (\$/L)	
16. Estimated funding support required (\$/L, \$million/year)	
17. Do you have identified off-takers? If yes, can you provide details?	
18. Please outline the potential community benefits that are likely to result from the development and operation of the project including jobs, training opportunities, local supply chains, developing local industry expertise, social license, community, and / or regional benefits.	
19. Any other comments	

APPENDIX D – Community Benefit Principles

The Program is a fund under the Future Made in Australia Act 2024 (Cth) (FMA Act). As a result, when making funding decisions, decision-makers will consider the Applicant's commitment to the Community Benefit Principles.

Under the FMA Act, the Community Benefit Principles are:

- a. promoting safe and secure jobs that are well paid and have good conditions; and
- b. developing more skilled and inclusive workforces, including by investing in training and skills development and broadening opportunities for workforce participation; and
- c. engaging collaboratively with and achieving positive outcomes for local communities, such as First Nations communities and communities directly affected by the transition to net zero; and
- d. supporting First Nations communities and traditional owners to participate in, and share in the benefits of, the transition to net zero; and
- e. strengthening domestic industrial capabilities, including through stronger local supply chains; and
- f. demonstrating transparency and compliance in relation to the management of tax affairs, including benefits received under Future Made in Australia support.