



bp Australia Pty Ltd  
A.B.N. 53 004 085 616  
717 Bourke Street  
Docklands, Victoria 3008  
Australia

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## **bp Australia response to Cleaner Fuels Program: Powering low carbon liquid fuel production in Australia**

bp Australia welcomes the opportunity to contribute to the Department of Infrastructure, Transport, Regional Development, Communications, Sports and the Arts' Cleaner Fuels Program Policy Design and Engagement Paper.

bp is continuing the development of its Kwinana Renewable Fuels project at the Kwinana Energy Hub after taking the decision earlier in 2025 to rephase the project at a pace more aligned with customer demand and government policy. Confirmation on demand-side policy will be essential to its continued development.

bp is a major liquid fuel supplier across the Australian economy and many of our customers will require LCLFs as part of their decarbonisation strategies. However, under current policy settings, demand for these fuels in Australia remains limited.

We provide our views on the design of the Cleaner Fuels Program based on this experience and understanding of what will make a difference for investment decision in new LCLF production capacity in Australia.



## About bp Australia

bp's purpose is to deliver energy to the world, today and tomorrow.

We are an integrated energy company, serving customers across all sectors, from light vehicles to heavy transport, rail, aviation, and marine. Our history in Australia spans more than a century, and our customers are at the heart of our operations across all states and territories. Through our growing network of over 1,400 retail sites and bp pulse charging stations, we provide the convenience, mobility, and energy solutions they rely on.

We're also integrating our natural gas capabilities with power trading and growth in low-carbon markets, including wind, solar, hydrogen, and carbon capture and storage. Our business model and service offerings continue to evolve with our customers' needs, today and into the future.

## Key messages for the design of the Cleaner Fuels Program

The Cleaner Fuels Program should focus on supporting investment in new production capacity of the low carbon liquid fuels identified as having a role in Australia's net zero plan, i.e., renewable diesel and Synthetic Paraffinic Kerosene (SPK) that is used to make Sustainable Aviation Fuel (SAF).

The \$1.1 billion funding for the Cleaner Fuels Program alone will not be sufficient to underpin the investment case for new production capacity. Clarity on the demand-side policy is urgently needed. Australia should move at pace to implement a regulated demand mechanism aligned with the intended uptake of LCLFs in the Net Zero Plan and supporting Treasury modelling.

It is difficult to see investments being made in new production capacity without confidence in offtake. This means effective implementation of the Cleaner Fuels Program will rely on confirmation of Government's demand-side policy.

Time is of the essence. The Cleaner Fuels Program should be designed to have a short process for assessing and awarding support. Many proposed projects, including bp's Kwinana Renewables Fuels Plant, are at a critical point in the development cycle. There is a risk these projects will be exited without clarity within the next year on the demand-side policy and



confidence they will have access to support from the Cleaner Fuels Program. Once ceased, there will be little appetite from investors to resume developing projects even if policy is subsequently announced.

bp's preferred settings for the production support under the Cleaner Fuels Program are summarised below.

<b>Variable</b>	<b>Preferred design</b>
Eligible fuel	Renewable diesel and SPK used to make SAF
Eligible producers	New production facility in Australia using any production pathway with a minimum production capacity of 250ML per year.
End uses/offtake	Any end use of renewable diesel or SAF, both domestic and export
Duration of contracted payment period	Up to ten years from first production.
Payment basis	Production incentive paid based on the volume of eligible LCLF produced.
Payment value/profile	Uniform (across all projects) fixed amount per unit of eligible LCLF with additional incentive paid for carbon intensity improvement beyond minimum.
Carbon intensity	To be eligible fuel must meet the minimum carbon intensity threshold established for the program. Carbon intensity measured on a life-cycle basis. Given the current problematic direction of the LCLF PGO it will not be a suitable basis for the Cleaner Fuels Program. A reputable international accounting approach and certification should be used instead.

We look forward to working with Government as it finalises the design of the Cleaner Fuels Program at pace.



## bp Australia response to consultation questions under Cleaner Fuels Program: Powering low carbon liquid fuel production in Australia

<b>1. Eligible fuels</b>	
1.1 Which LCLF should be eligible under the program and why?	Neat renewable diesel and SPK for SAF from new Australian production facilities should be eligible. All production pathways eligible.
1.2 Should certain types of LCLF be prioritised over others?	The program should prioritize LCLFs that are indicated will be needed in the Net Zero Plan, that is renewable diesel and SPK for SAF.
1.2.a. Should LCLF suitable for particular sectors or uses be prioritised? For example, should SAF be prioritised over renewable diesel?	Any end use/offtake should be eligible, with the project proponent determining the best output (either RD or SPK) based on the project's economics and market conditions.
1.2.b. Should LCLF for certain sectors or uses be deprioritised due to other viable decarbonisation pathways?	No
1.2.c. What market impacts are anticipated by influencing prioritisation of particular fuel types?	Care should be taken if prioritizing certain end uses or SAF over renewable diesel. Focus should be on supporting viable production facilities. Restricting their offtake options could increase costs and potentially undermine the optimisation and viability.
<b>2. Type of production support</b>	
2.1 Should the production credit be a fixed amount per	We'd suggest a base level of support for eligible RD and/or SPK that meets the minimum threshold for carbon intensity

<p>litre of production, or a variable amount that depends on the market price of LCLF?</p>	<p>and increasing the amount of subsidy for carbon intensity improvements beyond the minimum threshold (similar structure to production incentive provided in other countries). We'd also recommend a uniform subsidy be established at the program level and set out as part of the guidelines, so that all successful projects get the same support per litre produced. Projects would then be assessed on things like alignment with program objectives, executability, bankability, timeline for COD, technology readiness, community benefits, etc.</p>
<p>2.1.a. Are there any potential benefits, risks or constraints considering the two different production credit options?</p>	<p>We expected any facility supported under the Cleaner Fuels Program will compete for feedstocks on global markets and will compete with imports of finished product for domestic demand. If they intend to export the fuels they will compete with foreign producers for export demand. The price of LCLFs will therefore be determined by global markets, not the cost of production at the particular refinery.</p> <p>A variable subsidy mechanism approach would need to consider not just price of LCLFs but also input costs (i.e., margin is what is important for investment decisions in new production capacity).</p> <p>It is unlikely to be possible to establish a variable subsidy option within the proposed timeframe to establish a framework.</p>
<p>2.1.b. What outcomes do you think can be delivered with the available funding?</p>	<p>The program is unlikely to be sufficient alone to underpin an investment case for new production capacity. This will need more certainty on demand.</p> <p>With a demand-side policy in place, the Cleaner Fuels Program can help to attract investment to Australia that otherwise would do elsewhere and help to ensure new</p>

	<p>Australian producers can compete with incumbent foreign producers.</p>
<p>2.1.c. What type of mechanism provides the greatest investment certainty or level of bankability to projects?</p>	<p>A demand-side mechanism will be essential to secure an investment decision and underpin bankability of projects. However, on the supply side, a uniform fixed production credit would provide the greatest level of certainty for projects under development (because they know how much subsidy they will receive for eligible fuel if successful when the program opens).</p>
<p>2.1.d How can this support be structured to prevent substantial upside to producers?</p>	<p>The overall funding available for the Cleaner Fuels Program is rather moderate in the context of the business case for new investments in production capacity – so there is little risk of “substantial” upside. Including a cap on the production credits any one facility can receive would also address this. .</p>
<p>2.1.e. 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?</p>	<p>LCLFs and the feedstocks used to produce them are already traded on the global market and therefore we expect pricing in Australia to be correlated with international markets. Australian prices are likely to track global market prices (EU prices in particular) adjusted for freight into the region (net back pricing). That is, in general terms, AU Price = LCLF price in EU – freight to Singapore + freight to Australia. Australian pricing will also be influenced by specific characteristics of domestic demand (e.g. policy settings around carbon intensity, sustainability etc) but is still expected to correlate with international markets. While some offtake contracts may reference a premium over and above fossil alternative, these will still likely reflect global market dynamics.</p>

	<p>Some offtake contracts may reference compliance costs under the Safeguard mechanism in addition to the fossil fuel price, but this is unlikely to be the main determinant of price given current global dynamics and safeguard mechanism settings.</p>
<p>2.2 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?</p>	<p>As discussed above, we recommend the program establish a uniform production subsidy per litre of eligible fuel produced for successful projects. Additional subsidy could be given to carbon intensity improvement beyond the minimum threshold.</p> <p>We do not support differentiated subsidy across projects based on estimated production costs. Subsidy is only payable if the project actually produces.</p> <p>Projects should be assessed on things like executability, bankability, timing of production, viability etc. Assessment should go beyond cost of production and include things like access to feedstock, offtake, capability of operator, schedule, finance strategy, project design and definition, technology readiness etc.</p> <p>When coupled with a demand mechanism, taxpayer value is delivered through investment attraction to establish domestic LCLF production as a sovereign capability, diversification of feedstock opportunities, and potential avoidance of import freight costs.</p> <p>Assessment process can ensure alignment with program objectives., with payment only made when fuel is produced.</p>
<p>2.3 Should the production credit be linked to the quantum of LCLF produced,</p>	<p>Provided a clear minimum expectation framework is in place (covering carbon intensity and other sustainability criteria), the production credit should be linked to the quantum of LCLF</p>

<p>or the carbon emissions saving potential of the fuel?</p>	<p>produced. bp recommends scaling the payment based on carbon intensity improvements made beyond the minimum required.</p>
<p>2.4 What are your views on the cost to deploy LCLF domestically compared to internationally? Is there a local premium for domestic production?</p>	<p>Project capital costs can be higher in Australia than other regional markets due to labour, materials, and regulatory cost burdens. Some production costs are offset by local feedstocks and avoidance of freight costs. Firm demand with production and/or capital support will encourage a domestic industry in Australia.</p>
<p>2.5 Should the total value of production credits be capped for each project? If yes, what should the capped amount be and why?</p>	<p>Provided a production project meets the established criteria, including being linked to actual production, total production credits received per annum should be uncapped.</p> <p>A total volumetric cap for each production project across the program period could be put in place, for example 5BL across a 10 year period.</p>
<p>2.6 Should production be focused on domestic supply only or should export also be permitted? What impact could restriction have for projects or the market?</p>	<p>The ability for a production project to export product should remain available to maximise the market options available to the plant. Restricting the placement of product to domestic demand can weaken the investment case and limit optimisation of the plant over time. Demand-side policy will drive the uptake of LCLFs in Australia. We expect domestically produced product to compete favourably for that demand.</p>
<p>2.7 Is there a role for combined production support with capital grants for first-of-a-kind facilities?</p>	<p>Yes, there is a role for capital grants alongside production support in encouraging and establishing domestic capability. In particular, the support is beneficial in the development stages of the projects to help de-risk and build investment case. Minimising the constraints on co-funding here would help production projects to manage development risks and encourage development.</p>

<p>2.8 What other types of funding or concessional finance could support LCLF projects (e.g. funding from CEFC and NRF)?</p>	<p>Bio-production projects often face financial challenges due to policy driven demand uncertainty.</p> <p>CEFC and NRF can play a critical role in addressing risks and improving the investment case. Financing options with competitive rates and concessional elements, such a bullet payment at the end of term and an interest holiday for construction periods, would be beneficial.</p> <p>Minority equity positions could also be beneficial as Australia invests in sovereign energy security.</p>
<p>2.9 Is any other support required across the supply chain to enable domestic production of LCLF?</p>	<p>A demand mechanism is required.</p>
<p>2.10 What lessons can Australia learn from other jurisdictions that have already implemented LCLF production support measures?</p>	<p>Australian can learn from international experience that both supply side support as well as demand side policy is needed.</p> <p>It can also learn from the emissions accounting and sustainability frameworks established and the related certification system.</p>
<p><b>3. Fuel Production</b></p>	
<p>3.1 Considering this objective, what production pathways should be focused or prioritised?</p>	<p>All production pathways that produce renewable diesel and/or SPK should be eligible. However, we would expect that projects which deploy a more advanced/commercially ready production pathway would be assessed more favourably at least in the short-term.</p>
<p>3.1.a. Should priority be given to projects that use more-established production</p>	<p>We would expect an assessment process that was considering things like executability, bankability, commercial viability, technology readiness etc., would select projects</p>

<p>pathways (e.g. HEFA and HVO) than nascent production pathways that may present a higher level of technology risk?</p>	<p>using more established production pathways. But other production pathways do not necessarily need to be excluded. The Innovation fund is better placed to work with proponents on production pathways that are less mature.</p>
<p>3.1.b. How can nascent production pathways compete with more-established production pathways (e.g. HEFA and HVO)?</p>	<p>The innovation fund can support production pathways that are less developed so that over time they may be able to compete under the Cleaner Fuels Program. These will also rely on demand side policy which we expect would see demand grow over time, consistent with the Net Zero Plan.</p>
<p>3.1.c. What minimum stage of project development (and evidence) should be expected by projects under the program?</p>	<p>We suggest the guidelines remain open on minimum requirements in terms of project definition and development. However, we would expect projects that are more progressed in their development to be assessed more favourably. Not all projects in the investment pipeline will be at the same stage of development when the program opens. We therefore recommend having a process that provides flexibility to express an interest regardless of the stage of development, and if shortlisted, can then move to funding decision when ready.</p>
<p>3.2. Should there be a minimum facility size to be eligible?</p>	<p>The program should focus on investments in production capacity that can be globally competitive and viable in the long-term. Smaller projects are unlikely to compete. To save time and administrative burden we recommend settings minimum size. Something in the order of 250ML a year.</p>
<p>3.3. Should LCLF be required to meet a carbon intensity threshold (% carbon intensity</p>	<p>Yes, based on the life-cycle emissions intensity of the fuel. It is important the program guidelines set out the specific</p>

<p>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?</p>	<p>emissions accounting methodology and certification process to be used.</p> <p>bp is very concerned with the current proposal/direction for the LCLF PGO being developed by DCCEE. Its limitations are so concerning that we do not think it is suitable for use under the Cleaner Fuels Program. At this stage we would recommend selecting a reputable international approach such as the ISCC used for EU and/or CORSIA.</p> <p>We can't give a view of a suitable threshold until we know what specific emissions accounting system is to be used.</p>
<p>3.3.a. 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?</p>	<p>Yes, a minimum criteria should still be established and scaled for improvements beyond that.</p>
<p>3.3.b. Should Indirect Land Use Change be included in the method for determining carbon intensity, for the purpose of the Program?</p>	<p>Yes. The potential for indirect land use change emissions needs to be considered, otherwise there is potential for unintended consequences from the feedstocks. This can either be incorporated into the emissions calculation or involve the exclusion of feedstocks assessed to have high risk of material ILUC emissions associated with them.</p>
<p>3.3.c. Should any feedstocks be prioritised or otherwise considered out of scope?</p>	<p>The government must consider Australia's strengths and how they interact with fuel security when considering which feedstocks to prioritise. Vegetable oils, like canola, and then</p>

	novel feedstocks, such as cover crops, play an important role in Australia.
3.4 Other than carbon intensity, should any other sustainability criteria be included?	Yes. The program will need to include other environmental/social criteria.
3.5 Which international and domestic sustainability schemes should be allowed to verify sustainability claims?	<p>The Australian Government should set out sustainability requirements that fuels must comply with, as well as a criteria that sustainability schemes must meet in order to verify sustainability claims.</p> <p>This should also be closely aligned with standards and systems used in other jurisdictions (such as the EU and UK), so that sustainability schemes already used in other markets can also be approved for use in Australia (alongside domestic schemes).</p>
<b>4. Other policy considerations</b>	
4.1 What are your views on the aforementioned factors affecting the merit of a proposal?	The matters canvassed should form part of the assessment of proposals for funding under the program.
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?	<p>In general, LCLF projects may be relevant to all or many of the community benefit principles.</p> <ul style="list-style-type: none"> <li>• Investment in domestic manufacturing capability ensures skilled jobs, ongoing training to maintain workforces, and supports broader supporting industries.</li> <li>• Development of biofuel production also provides diversified opportunities for feedstock production &amp; existing rural and regional agriculture.</li> </ul>

<p>Are there specific Community Benefit Principles that are more or less relevant?</p>	<ul style="list-style-type: none"> <li>The new production facility, its supporting industry and feedstock supply chains provide opportunities for first nation communities.</li> </ul>
<p>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.</p>	<p>Global adoption of demand-side measures will affect supply and demand. As ASPAC producers focus more on domestic markets, Australia's lack of local production may limit import supply, raise costs, and alter feedstock availability from abroad.</p> <p>Frameworks which cross global borders such as marine &amp; aviation industries create additional sources of demand for LCLFs. LCLFs supplied in Australia for international shipping and aviation should be included in Australia's LCLFs demand policy.</p> <p>Supply-side incentives can support domestic producer compete with foreign producers.</p> <p>Where possible, common design elements can enable most efficient compliance pathways.</p>
<p>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?</p>	<p>Demand certainty via a demand mechanism</p> <p>Feedstock and product certification basis (i.e. Carbon intensity and other metrics)</p> <p>Market structure – such as mass balancing, book and claim, location based etc.</p> <p>Competitive capital cost</p>
<p>4.5 What are the intersecting policies you expect need to</p>	<p>A demand mechanism is required</p> <p>Settings under the Safeguard mechanism</p>

be considered to unlock a domestic LCLF production industry?	Rate of excise applied Tax treatment of the production subsidy
4.6 Is there any other feedback you would like to provide that isn't covered by questions above?	