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IATA Response to *Cleaner Fuels Program: Powering low carbon liquid fuel production in Australia* consultation

The International Air Transport Association (IATA) is the global trade association representing the world's airlines, comprising nearly 370 carriers that account for around 85% of global air traffic. One of IATA's highest priorities is to accelerate the transition to Sustainable Aviation Fuel (SAF), Lower Carbon Aviation Fuel (LCAF), and other cleaner energies, which are the central pillar in the airline industry's pathway to achieving net zero carbon emissions by 2050.

IATA welcomes this consultation and strongly supports the creation of a well-designed production incentive program in Australia that complements demand-side policies and regulatory mechanisms, enhances investment certainty, and unlocks Australia's significant feedstock and innovation potential.

IATA welcomes the Cleaner Fuels Program as part of Australia's energy transition. This program must focus on increasing the production of renewable energy in general, of which renewable fuels form an essential category; sustainable fuels for airline use are a further subcategory that is, of course, indispensable for the airline industry. The maximisation of the output of a specific fuel will depend on the maximisation of the whole renewable energy sector, and market development strategies must consider the whole, while considering the specific. This will inform the relative priorities, discussed below.

As long as aircraft use jet engines for propulsion, liquid fuels will be necessary. IATA estimates that SAF, LCAF, and other aviation cleaner energies will deliver 65% of the airline industry's decarbonisation. In this context, the development of a robust and competitive Australian SAF industry, in the broadest sense, is critical not only to Australia and its Pacific Island neighbours, but also to the global quest to decarbonise the airline industry.

IATA appreciates the Department considering our responses to the following selection of questions, where our contribution might be the most pertinent. IATA would be happy to continue engaging with the Department and provide any additional information that may be required as the national strategy for LCLF evolves.

Question 1.1: Which LCLF should be eligible and why?
All Low Carbon Liquid Fuels (LCLFs) that meet internationally recognised sustainability and lifecycle emissions standards should be eligible, including CORSIA-certified SAF from approved pathways such as Hydroprocessed Esters and Fatty Acids (HEFA), Alcohol-to-Jet (AtJ), Fischer–Tropsch (FT), and Power-to-Liquids (PtL). SAF represents a mere 0.8% of global jet fuel consumption today, at around 2 Mt; 500 Mt will be needed in 2050 to achieve net zero emissions for the aviation sector. All variants of sustainable aviation fuel will be required to make this possible, in the largest quantities possible, and as rapidly as possible. We warmly welcome Australia's initiative in this regard and support an inclusive and non-discriminatory approach to all types of SAF.

Question 1.2: Should certain types of LCLF be prioritised over others?

a. **Should LCLF suitable for particular sectors or uses be prioritised? For example, should sustainable aviation fuel be prioritised over renewable diesel?**

Firstly, to maximise the production of renewable fuel, it is necessary to also maximise access to renewable power, much of which is needed in the production of renewable fuels.

Secondly, refineries produce a range of products, and the prioritisation of one over another occurs at the margin and as a function of the refinery's profit optimisation, which is in turn dependent upon market prices in the energy sector as a whole. The danger is the potential for fuel for airlines drops out of the equation, as it represents one of the smaller product shares in refineries. Globally, fossil-based jet fuel represents around 9% of total refined output – a share that is too small to make a refinery viable on its own. That makes renewable diesel and other renewable fuels necessary components of the path to producing more renewable fuel for airlines.

Hence, rather than saying that sustainable fuel for the airline industry should be prioritised over other fuels, we would say that it absolutely needs to be safeguarded.

The small share of fossil jet fuel in refineries' output does incidentally already imperil airlines' reliable access to such jet fuel, as the production of fossil-based diesel falls and a number of refineries thus decide to close. In that context, an accelerated increase in the production of sustainable fuels for air transport could not only enable decarbonisation but also safeguard airlines' access to fuel in general.

b. **Should LCLF for certain sectors or uses be de-prioritised due to other viable decarbonisation pathways?**

The de facto de-prioritisation of fossil-based diesel is occurring at refineries as demand for this product has declined with the increase in electric road transport. As such, liquid natural gas (LNG, a non-refined product for trucks) is making the availability of fossil-based jet fuel more uncertain, as discussed above. This highlights the danger of adopting an energy strategy in a narrow, segmented, and industry-centric manner as the global energy system is complex and the parts influence each other.

The best approach is to promote all renewable energy production, within which the supply of renewable fuels is necessary for all the industries that depend on liquid fuels, including the airline industry, which has set a 2050 target for net zero emissions. The reliable supply of renewable fuels will in part be dictated by the expansion of the renewable energy sector overall. It is not possible to expand the renewable energy sector overall by focusing on specific/explicit products for individual industries. It is not possible to produce only renewable aviation fuel – it is part of a whole product slate, the composition of which needs to be optimised in such a way that refineries can be financially viable, and so that all users of those products can access the quantities they require.

c. **What market impacts are anticipated by influencing the prioritisation of particular fuel types?**

From the above discussion, it becomes clear that the energy transition requires careful management of both the desired growth in renewable energy production in all its forms, and of the de-growth in the areas of the fossil-based energy sector where demand has declined and can be anticipated to decline further. Segmented prioritisation of individual energies or fuels can disrupt the supply and the pricing in dramatic ways.

The prioritisation that needs to take place is to de-prioritise the production of fossil energies and prioritise renewable energies, across the board. This can best be done by levelling the playing field across the entire energy sector, removing support for fossil energy production, and increasing support for renewable energy production and development. Fundamentally, investments are allocated in function of the expected returns, and the risk profile of the investment. As long as fossil energies deliver higher (often state-supported) returns at known and manageable risk levels, the renewable energy sector is being discriminated against. Public policy should focus on addressing this fundamental issue rather than deciding which specific form of energy to allocate to which industry. The market is unable to clear the first issue, but mostly able to clear the latter.

Having said that, it is obvious that aircraft cannot fly without a liquid fuel. The production of SAF requires the construction of entirely new supply chains and production facilities, and the investment proposition is likely to be enhanced if public policy could provide meaningful support for such necessary infrastructure. Based on a global assessment of feedstock availability and SAF production potential conducted by IATA, we forecast that there will be sufficient SAF feedstock to enable the airline industry to achieve net zero CO_2 emissions by 2050.[1] Australia, as the 6th largest country by land mass, plays an important role as it offers diverse feedstocks, including sugar/starch-based crops, waste oils, and existing agricultural residues such as wheat straw and rice husks. Developing these will have great economic benefits for Australia beyond the direct enabling of the renewable energy sector.

It should be noted that jet fuel pricing in Australia is already higher than the regional average, which increases airline operating costs. This context is important as SAF is introduced into the Australian market, because additional cost premiums may further affect competitiveness. Targeted support will therefore be required during the early years of market development until a liquid and competitive SAF market is established.

Question 2.1: Should the production credit be a fixed amount per litre of production, or a variable amount that depends the market price of LCLF?

a. **Are there any potential benefits, risks or constraints considering the two different production credit options?**
b. **What outcomes do you think can be delivered with the available funding?**
c. **What type of mechanism provides the greatest investment certainty or level of bankability to projects?**
d. **How can this support be structured to prevent substantial upside to producers?**
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?**

IATA welcomes the consideration of a variable "Contract-for-Difference" (CfD) mechanism, exploring both options of credit, a fixed amount per litre of production, or a variable amount. A CfD provides predictable revenue support, reduces investment risk for first-of-a-kind SAF facilities, while protecting taxpayers from over-subsidising in periods of high market SAF prices. It avoids "windfall profits" if SAF market prices rise (e.g., due to higher demand or feedstock tightness), because support is only the difference between the strike price and the market price. Given that initial SAF facilities will likely have high capital expenditures, CfD encourages investment while ensuring long-term sustainability.

In setting up the CfD mechanism, it is essential to consider the funding source. One existing example is the United Kingdom (UK) government's current consideration of an industry-funded approach for its "Revenue Certainty Mechanism"[2] under its SAF Mandate by applying a variable levy on aviation fuel suppliers. From airlines' experience with the implementation of the UK SAF mandate, as well as other mandates such as RefuelEU Aviation (REFUA), any levies on fuel suppliers are inevitably passed on to airlines, often with an additional risk premium on top of the price of each tonne of fossil jet fuel purchased. Linking the SAF premium to a conventional aviation fuel (CAF) index can support the scale-up of SAF production in the short to medium term. However, since the two products are fundamentally different, transitioning to pricing based on CO_2 abatement could be a logical long-term approach. This shift will require further consultation and industry alignment. Additionally, pricing per unit of abatement can help offset Scope 3 emissions. IATA would be delighted to support Australia in exploring various funding channels, with close consultation and discussion with other significant industry stakeholders.

[1] Global Feedstock Assessment for SAF Production: Outlook to 2050. IATA. Available at: https://www.iata.org/globalassets/iata/publications/sustainability/global-feedstock-assessment-for-saf-production-outlook-to-2050.pdf
[2] Sustainable aviation fuel revenue certainty mechanism: approach to industry funding. UK Department of Transport. Available at: https://www.gov.uk/government/consultations/saf-revenue-certainty-mechanism-approach-to-industry-funding/sustainable-aviation-fuel-revenue-certainty-mechanism-approach-to-industry-funding

Question 2.3: Should the production credit be linked to the quantum of LCLF produced, or the carbon emissions saving potential of the fuel?

The potential carbon emission reductions from renewable fuels, including SAF, vary depending on feedstocks and production pathways. Providing higher incentives for fuels that deliver greater lifecycle emissions reductions will yield more meaningful progress in mitigating overall carbon emissions. Establishing a system that incentivises greater greenhouse gas savings would provide stronger certainty and accelerate the industry's decarbonisation efforts. It is also worth noting that international schemes, such as Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) under the International Civil Aviation Organization (ICAO), require airlines to claim the actual emissions reduction from the eligible fuel used, rather than simply reporting the volume of eligible fuel used.

Question 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?

IATA defends free-market economics and opposes protectionism and restrictions on trade in general, regarding both imports and exports. Hence, IATA absolutely supports building a domestic market in Australia that is free to sell its fuel to any buyer. There is a philosophical element to this discussion pertaining to the role of the state. In open market economies, the role of the state is essentially to enable all economic activities in a fair manner that does not distort competition. The state will, in that case, facilitate the broadest possible choice for consumers and producers who will themselves make their own decisions in function of their preferences. With respect to the current proposal, it is IATA's view that the state should facilitate the production of LCLF but not assume the role of making choices in the place of producers and consumers. Specifically, producers must be allowed to sell to the consumers of their choice – a choice that will likely be influenced by consumer demand and relative prices.

Restricting exports would limit potential production volumes, reduce investor interest, and undermine Australia's likely regional leadership. Based on IATA's global feedstock study assessment, Australia is well-positioned to become a key driver of SAF production for the region, likely finding export markets in Pacific Island nations, for instance, where the potential to produce LCLF is limited. Restricting exports could therefore hamper the decarbonisation of other countries in the region.

Alternatively, IATA also highly recommends that the Australian Government fully adopt a global book and claim system, aligned with internationally accepted practices such as, but not limited to, ICAO's CORSIA scheme. Adopting a robust global book and claim system can help expand market access to these LCLFs without the need to physically transport them to another location, thereby optimising the LCA benefits for these types of fuels. More information on book and claim, specifically SAF accounting, is included in Question 2.9 below.

Lastly, of course, in immature markets with low volumes, states could be tempted to offer preferential prices to domestic customers. This is not the optimal policy choice in terms of supporting the domestic market, as it is rarely very successful when the state manipulates prices. This reduces transparency and prevents the emergence of a global, liquid, and mature market. If domestic actors require support, it is most preferable to offer it through the tax system in the form of tax credits and similar measures. These are superior policy instruments as they arrive directly at the targeted actor and do not interfere with market economics.

Question 2.9: Is any other support required across the supply chain to enable domestic production of LCLF?

Access to fuel infrastructure in Australia is highly complex due to the ownership and operational structure of these assets, as well as the multiple barriers to entry faced by new suppliers. These challenges can be prohibitive when attempting to scale up SAF supply at major airports such as Sydney and Perth. In both locations, oil companies retain control over the use of their infrastructure, and access to critical assets, such as Sydney's largest pipeline, remains extremely limited. Securing even partial access has required years of sustained advocacy and negotiation. It is clearly necessary to ensure that the production of renewable fuels for airlines can arrive at the airport and into the aircraft. Oligopolistic and cartel-like ownership structures around

airports and the associated fuel infrastructure around airports could pose a major obstacle to decarbonisation and must be a priority for regulators to address.

Alternative delivery modes, such as trucking fuel to airports, are technically feasible, however, this approach carries higher unit operating costs and provides limited scalability, particularly where airport facilities and upstream infrastructure are not designed to support economies of scale across the value chain. Collectively, these constraints present a substantial barrier to the deployment and expansion of SAF in Australia, potentially increasing the financial burden on airlines already operating in a high OPEX environment such as Australia. IATA also suggests considering funding for SAF blending facilities to enable more direct and open access to SAF for airlines. IATA would be happy to provide guidance on infrastructure access to support SAF deployment.

A major barrier to the rapid increase in this fuel market is the skewed distribution of risks across the value chain. Policies that alleviate notably early-stage investment risk, as well as the stage needed to achieve commercial scale, have been very successful in previous energy market creations, such as wind and solar. This can be in the form of tax credits and grants, among others. It is not a question of de-risking but of adequate risk transfer. It is not possible for airlines to provide risk cover for this energy market. To the extent that banks and insurers are also unwilling to participate in the market, or only at very onerous terms, this is an area that would greatly benefit from state guarantees.

IATA strongly recommends that future SAF policies in Australia support the establishment of a robust SAF accounting system, enabling aircraft operators to claim the environmental benefits of SAF based on purchase records. Such a system should also allow airlines to contract directly with SAF producers.

A fit-for-purpose SAF accounting system to account for the environmental benefits of SAF could facilitate and accelerate SAF production and uptake by:

- Enabling and promoting SAF production where it is most efficient
- Stimulating SAF uptake where physical supply is too expensive or otherwise impeded
- Minimising logistics costs, such as transport and use of intermediate storage facilities
- Avoiding adding greenhouse gas emissions from the transportation of SAF
- Expanding the customer base compared to physically matching supply and demand, thus providing a clear market signal favouring the ramp-up of SAF production
- Promoting competition and a more diversified SAF market, which in turn could help to stabilise the price for SAF in the long term
- Facilitating compliance with mandatory as well as voluntary emissions reduction schemes
- Reducing risks related to price and revenue certainty.

This so-called "book-and-claim" approach for SAF accounting is fully recognised under the ICAO's CORSIA scheme. Harmonising accounting methodology practices could also help reduce administrative burdens for airlines. As physical SAF uplift in Australia may not always align with route structures or fuel logistics, a robust ICAO-aligned book-and-claim system should be seen as a core market infrastructure, rather than as a supplementary mechanism.

Question 2.10: What lessons can Australia learn from other jurisdictions that have already implemented LCLF production support measures?

Examples of policies that IATA would support in Australia and elsewhere can be found in the United States and Japan.

The United States offers a federal tax credit of up to USD 1.00 per gallon for eligible SAF produced after 2025. These credits can be combined with state-level incentives, depending on the production location, further improving SAF's cost competitiveness relative to other fossil-based and renewable fuels, such as renewable diesel.

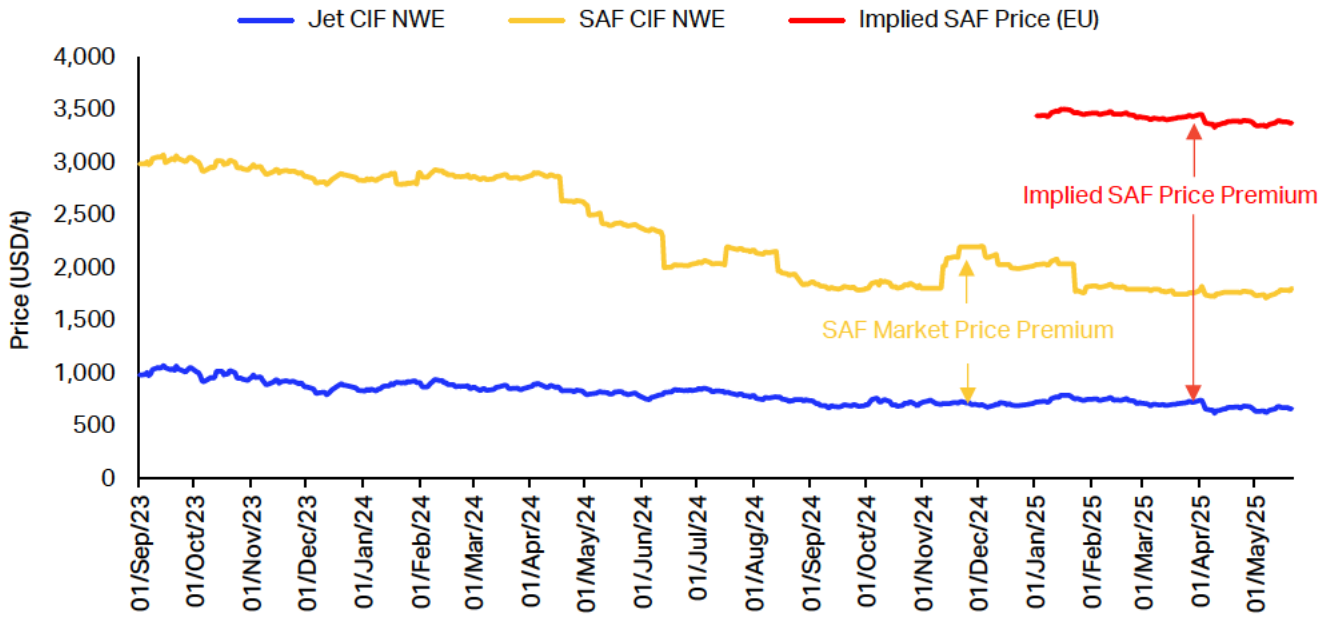
Japan has also reinforced its SAF support framework through the Green Transformation Economic Transition Act, allocating USD 2,277 million over five years (including USD 187 million in 2024) to support SAF project capital expenditures. For facilities using

conventional SAF production pathways, one-third of initial capital expenditure is covered, while facilities using advanced pathways receive coverage for half of the initial investment costs. These measures help attract capital and reduce investment risk in a nascent market. Additionally, Japan is considering introducing a tax credit for SAF sales.

Europe offers important learning experiences from their use of mandates and compliance-based mechanisms. Key findings from IATA's analysis highlight significant risks and unintended (though predictable) consequences when mandates are introduced in a market where the product is in short supply.

Airlines have observed that any obligations or levies imposed on fuel suppliers are typically passed on to airlines in the form of a higher price for the jet fuel. Translating that into an implied price for SAF shows a staggering premium over market SAF prices (Figure 1). Airlines cannot ascertain the physical supply of SAF for the extra cost, nor do they necessarily obtain the sustainability documentation required to claim the SAF attributes against airlines' obligations. Moreover, airlines are deprived of their "right to self-determination" as this system prevents airlines from negotiating the SAF volumes they wish to procure at their own commercial terms. The result is greater profits for the fossil-based jet fuel suppliers, greater costs for airlines, uncertain CO_2 emissions reductions, a weakened negotiating position for airlines, and no discernible increase in SAF production in Europe.

Figure 1 Implied cost of SAF due to compliance fees under ReFuelEU Aviation[3]



Source: S&P Global Energy, IATA Sustainability and Economics

In summary, key lessons from Europe's SAF mandates include:

- Mandates should not be used when the product is in short supply. This will only drive up the price and cartelise the market, favouring incumbents over new entrants, and existing technologies over innovation.
- Mandates used too early in new markets can reverse environmental and economic intent.

[3] The data is obtained from a sample of airlines operating at these EU airports. The sample may not be representative. Further, compliance fees vary significantly across different airports. In addition, airlines may have different fuel supply models, and not every airline will have the same fuel cost structure or exposure to the SAF compliance fees.

Drawing on these lessons, IATA considers the following design principles to be essential for the Cleaner Fuel Program:

- Prioritise supply-side support before any demand-side mandates
- Use price-gap or production-linked incentives rather than compliance fees or surcharge-based schemes
- Ensure supply-chain diversity and competition to avoid monopoly behaviour
- Design incentives that accelerate scale-up of existing and future technologies
- Include transparency, accountability, and certification safeguards

Question 3.1: Considering this objective, what production pathways should be focused on or prioritised?

a. **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?**

Australia should support all certified pathways, with priority given to those that can scale rapidly, including HEFA and FT, while also laying the foundations for other types of SAF, such as Power-to-Liquids. Australia should also promote co-processing in its fossil-based refineries, which, with current ASTM limits, could achieve a 5% SAF blend almost immediately.

Question 3.2: Should there be a minimum facility size to be eligible?

In the context of size, it is incumbent on the sustainable feedstock availability and adopted pathway, as these technologies vary in terms of their commercial size and scale of deployment. As a general rule, commercially available technologies should be developed in accordance with industry standards to achieve economies of scale and swift entry to the market.

Question 3.3: 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?

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?**
b. **Should Indirect Land Use Change be included in the method for determining carbon intensity, for the purpose of the Program?**
c. **Should any feedstocks be prioritised or otherwise considered out of scope?**

IATA recommends that LCLF align with internationally recognised criteria, such as those established under ICAO's CORSIA framework. CORSIA sets a minimum lifecycle emissions reduction threshold of at least 10% compared to conventional jet fuel and maintains a positive list of eligible feedstocks. Under this framework, by-products, wastes, and residues are assigned an indirect land-use change (ILUC) value of zero in lifecycle emissions calculations. Crop-based feedstocks may also qualify for zero ILUC values when produced using ICAO-defined low-LUC-risk methodologies.

While remaining technology-agnostic, establishing a carbon intensity reduction threshold can ensure both environmental integrity and cost efficiency. Furthermore, as airlines operating international flights are subject to CORSIA compliance, harmonising with this global scheme will guarantee that SAF uptake delivers verifiable emissions reductions and avoids creating stranded SAF volumes with limited compliance value.

IATA further suggests that any future SAF policies in Australia be designed to be compatible with internationally recognised sustainability and lifecycle accounting frameworks, in particular CORSIA, so that fuels supported under the Program can be deployed in international aviation markets. There should also be clear guidance on SAF accounting to ensure that emissions reductions are allocated and claimed only once, in line with ICAO principles.

Question 3.4: Other than carbon intensity, should any other sustainability criteria be included?

As noted in the response to Question 3.3, it is essential that SAF supported under Australia's Cleaner Fuels Program prioritises facilities or projects producing certified fuels under CORSIA. The sustainability criteria for CORSIA-eligible fuels encompass a broad range of carbon, environmental, and socio-economic factors related to feedstock aggregation and/or cultivation, and production processes. As airlines operating international flights must comply with CORSIA, IATA reiterates that aligning with these criteria will ensure SAF produced domestically in Australia can be supplied as compliant fuel under CORSIA, delivering verifiable emissions reductions for airlines.

Question 3.5: Which international and domestic sustainability schemes should be allowed to verify sustainability claims?

In line with our responses to Questions 3.3 and 3.4, IATA proposes that the Cleaner Fuels Program explicitly recognise the CORSIA framework for verifying the sustainability claims of eligible LCLF. Under CORSIA, approved Sustainability Certification Schemes (e.g., ISCC, RSB, ClassNK) ensure compliance with sustainability and greenhouse gas criteria for eligible fuels. These approved schemes certify every element of the supply chain and ensure sustainability declarations are traceable throughout the chain. Verification bodies accredited in each State, e.g., Australia, then confirm the reliability of this sustainability documentation when an airline claims the use of CORSIA-eligible fuels, cross-checking reported batch volumes, mass, and life cycle emissions against the supporting document. Acknowledging this sustainability verification process and aligning the Cleaner Fuels Program with the globally recognised CORSIA framework will enable producers to access multiple markets and support broader adoption of SAF while reducing any administrative burdens of the economic operators in catering to the various market needs their customers may have.

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.

International frameworks by ICAO, such as CORSIA and the Long-Term Aspirational Goal (LTAG) set global expectations on international aviation's decarbonisation pathways and the global standards for emissions reductions. Therefore, it is crucial that Australia aligns its domestic program with these international frameworks, so that Australian SAF projects can be recognised in global markets.

Question 4.6: Is there any other feedback you would like to provide that isn't covered by questions above?

Given the nascent stage of the Australian (and indeed the global) SAF industry, IATA recommends the Government continue to engage closely with industry when designing policies and reviews them periodically to ensure effectiveness. IATA greatly appreciates the consultative approach that the Government has taken on the topic of decarbonisation and SAF to date. We understand that this consultation builds on past exercises, including the consultation on *Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity* in July 2024, in which IATA participated. The IATA submission is enclosed for reference – and we welcome any further discussions on the above recommendations and invite the Australian Government to tap into IATA's global expertise and knowledge of policy and regulatory frameworks worldwide.

Furthermore, we would like to bring to your attention that IATA has engaged the Jet Zero Council and the Australian Department of Infrastructure on the implementation of the IATA SAF Registry – now incorporated under the Civil Aviation Decarbonization Organization (CADO). CADO is a non-profit entity established in March 2025 to impartially govern and manage the SAF Registry, developed to track the environmental attributes of SAF, LCAF, and other aviation cleaner energies, and allow for their claiming by aircraft operators and their customers. CADO's mission is to unite stakeholders across the value chain of SAF, LCAF, and other aviation cleaner energies and accelerate aviation's transition to net zero CO_2 emissions by 2050. The CADO SAF Registry is built

upon IATA's SAF Accounting and Reporting methodology, which complements ICAO SARPs (Vol IV, Annex 16, Chicago Convention). It enables States to access SAF, LCAF, and other aviation cleaner energies usage data by aircraft operators within their jurisdiction and verify compliance with different schemes. It can also be used to track ICAO CAAF 3 targets, State Action Plans, or assist in reconciling national emissions inventories. Starting February 2026, the Registry will facilitate CORSIA claims, providing a trusted mechanism for airlines to report for CORSIA compliance. The use of the CADO SAF Registry is free of charge for States, and a data interface with the ICAO CCR can be established based on ICAO requirements. We would like to invite the Australian Government to join the CADO to help scale up SAF production and use in the country.

Should you require additional information, please do not hesitate to contact me [redacted].

Yours sincerely,

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Encl:

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IATA Response to *A Future Made in Australia: Unlocking Australia's low carbon liquid fuel opportunity* consultation paper

As the global trade association for the world's airlines, the International Air Transport Association (IATA) supports many areas of aviation activity and helps formulate industry policy on critical issues. One of IATA's priorities is to accelerate the transition to Sustainable Aviation Fuel (SAF) for the aviation sector and we welcome the opportunity to be part of this consultation.

While recognising and understanding the role that low carbon liquid fuels have to play in the broader economy, given IATA's remit, this submission shall solely be focused on SAF and the role these fuels will play for the decarbonisation of the aviation sector. The development of an Australian SAF industry, currently in its nascent stages, will allow the Government to make seismic shifts with its Net Zero Plan and allow the aviation sector to meet its net zero targets.

In the consultation document, the Department has highlighted that countries around the world have implemented a mix of demand and supply side measures to support the uptake of low carbon liquid fuels. IATA supports a suite of supply and demand side measures, with mandates paired with program design and fiscal measures, to help de-risk the growth of the Australian SAF industry and reduce the cost gap between SAF and conventional aviation fuel. This is crucial not just for the short-term introduction of SAF to the Australian market, but also for the long-term sustainability of this sector.

Supply side policy recommendations to facilitate SAF production in Australia

In light of Australia's present position behind countries with more advanced SAF industries, a combination of tax incentives, contract for difference scheme and grant-based funding that encourages further reductions in life cycle assessment of greenhouse gas emissions as identified in this consultation paper would be ideal as supply side measures to achieve the most desirable outcome for SAF production. The US Grand Challenge and the USD3 billion of investments it supports is an example of a clearly articulated policy.

An early introduction of various policy instruments will facilitate an increase in SAF production, reduce SAF prices, and meet the growing needs of the airlines. Given the timing imperative, incentives should come first so that they will help create a functioning market, stimulate new players and diversify SAF production. Incentives can help facilitate innovation, reduce unit cost and support 'first-of-a-kind' production facilities.

The Queensland Government's work, alongside that of the Federal Government, to drive forward the SAF industry from its present nascent state, is a local example of a positive policy shift. The fiscal support provided by these authorities has, to-date, allowed state authorities and the nascent sector to develop. It is crucial that this continues, with the added layer of federal support. The recently announced series of funds to support the aviation sector's move toward net zero as part of the Future Made in Australia funding in the 2024 – 2025 National Budget is welcomed by the industry. Should the full potential of feedstocks in the country be unlocked by a supportive Federal policy framework, the Australian SAF industry stands to benefit immensely – domestically and internationally given Australia's comparative competitive advantage. The Queensland Government's approach is one that should be taken into account with any frameworks, and potentially replicated in other states, with the added layer of Federal Government support.

Demand side policy recommendations to facilitate SAF production in Australia.

Once steady production of SAF within Australia is achieved, mandates can then be introduced. Introducing a mandate for SAF utilisation before there is sufficient supply would simply increase SAF prices and cost of operations, which could be passed to the passengers. Penalties imposed by the government on the airlines for non-compliance of any mandate must be avoided, particularly if the underlying cause is outside of the airlines' control, e.g., lack of SAF supply. The design of any mandate must also consider any unintended consequences and market distortion especially when not paired with the right incentive or fiscal measures.

A failure to take this approach has the potential to cause unwieldly financial burden on various parts of the supply chain, whether these be airlines or fuel suppliers. Through the introduction of a basket of supply and demand side policy levers, including mandates at an appropriate time, the industry will have the support it needs to grow, while hard-to-abate sectors, including aviation, have the impetus to utilise these fuels.

Last but not least, any demand side policies must enable the full transfer of Proof of Sustainability documentation from fuel producers/suppliers to airlines, so that airlines can report and claim the emissions attributes of the SAF they procure under these policies. IATA notes the announcement by Assistant Minister McAllister on the introduction of an Australian *Guarantee of Origin* scheme and look forward to working with the Government on the shaping of this scheme in relation to low carbon liquid fuels.

Feedstock policy recommendations

In considering the difficulties of abating carbon emissions for the aviation sector, it is necessary for the Government to implement policies that prioritises the long-term needs of air transport for SAF in the allocation of feedstocks.

It is prudent for the Government to look at how it can introduce relevant policy infrastructure to ensure that it not only incentivises SAF producers, but also encourages producers to prioritise onshore supply. With the advent of various mandates and incentives in other markets, it is pertinent that the Government rapidly moves to implement feedstock incentives, ensuring that there are sufficient feedstocks for the Australian market. A failure to implement such policies in a timely manner may result in a dearth of feedstocks, as foreign commitments are locked in. Apropos this concept, it may also result in refineries and supply chains being developed, without anything to start the process. Given the potential for a strong domestic SAF industry, the Government should have appropriate frameworks in place to ensure that the entirety of the SAF production process can occur within Australia's borders. It is crucial that the Government, while looking at and learning from other markets, looks to develop a series of supportive policies that allows for the short-term proliferation and longer-term sustainability of a low carbon liquid fuels sector.

SAF feedstocks have a variety of potential uses, including for biodiesel. As outlined in the August 2023 Sustainable Aviation Fuel Roadmap released by the CSIRO, Australia is in an enviable position. Regardless of the pathway (HEFA, AtJ, FT etc.) producers choose to take, the abundance of feedstock across the nation allows Australia to become sovereign in its supply of aviation fuel through its entire production journey, from the development of the feedstock to the fuelling of an aircraft.

Certification and labour requirements for a successful SAF sector

IATA would also like to express support for the Australian Government delivering certification arrangements of some production pathways by mid-2028 and aligning the certification arrangements with international schemes such as CORSIA. Any SAF that meets the criteria of such international schemes should qualify for the incentives introduced by the Government.

IATA recognises that the production of SAF on Australian shores will see the increased propensity of a skilled labour increase in the sector. However, it is expected that there will be a skills shortage as the SAF industry develops. It is pertinent for the Government to consider the future labour market needs in the fuels sector to ensure the filling of roles such as feedstock certification and professionals who certify the veracity of SAF meeting sustainability certification schemes (e.g. CORSIA).

SAF accounting as a means of supporting the industry's uptake in the absence of supply

A recognition of robust a SAF accounting framework, alongside a basket of supply and demand initiatives, is a critical part of the market development of SAF - enabling global SAF deployment and a robust SAF industry in Australia. SAF accounting principles will facilitate the purchase and claiming of environmental attributes from users and safeguard the environmental integrity of the emissions reduction claims. SAF accounting will also allow SAF to be deployed in a manner that is both environmentally and financially sustainable, while giving the SAF industry in Australia wider market access to scale up production more quickly. Given Australia's geography, IATA expects that SAF Accounting will be particularly relevant and useful for remote airports where it is more challenging to deliver fuel. Enclosed with this submission are IATA papers on "SAF accounting based on robust chain-of-custody approaches" and "Unlocking geographical constraints on the global SAF market through a robust SAF accounting framework" which will provide further information.

Australia's regional responsibility

The development of the Australian SAF industry will put the nation in good stead as a regional leader for the sector. Australia could also support the SAF demands of its neighbours who have limited feedstocks and refining capabilities. In particular, while decarbonisation is an important priority for the Pacific airlines, their relatively smaller operational scale is an obstacle for their SAF adoption.

Through the implementation of the aforementioned suite of supply and demand side policies, Australia's airlines (including those who service Australia from abroad) will be able to reduce their CORSIA obligations. Supporting the Pacific Island nations in their decarbonisation journey would not only assist in expediting the energy transition of the sector but would also be aligned with the Government's Pacific foreign policy frameworks.

Given the nascent stage of the Australian SAF industry, IATA recommends that the Government continue engaging the industry closely when designing the polices and to review them periodically to ensure effectiveness. IATA greatly appreciates the consultative approach that the Government has taken on the topic of decarbonisation and SAF. We understand that this consultation builds on past exercises on the Aviation Green Paper and the Electricity and Energy Sector Plan and will support the current consultation on the Transport and Infrastructure Net Zero Roadmap. IATA participated in the aforementioned exercises – the IATA submissions are enclosed for reference – and we look forward to being part of the Transport and Infrastructure Net Zero Roadmap consultation and will provide our comments accordingly.

IATA welcomes any further discussions on the above recommendations and invites the Government to tap into IATA's global expertise and knowledge of policy and regulatory frameworks worldwide. Should you require additional information, please do not hesitate to contact me [redacted].

Sincerely yours,

Matteo Zanarini
Area Manager South West Pacific

Encl:
- IATA paper on SAF accounting based on robust chain-of-custody approaches
- IATA paper on Unlocking geographical constraints on the global SAF market through a robust SAF accounting framework
- IATA submission on Aviation Green Paper
- IATA submission on Electricity and Energy Sector Plan