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Department of Infrastructure, Transport, Regional Development,
Communications, Sport and the Arts
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Re: Cleaner Fuels Program

We welcome the opportunity to contribute to the Department's market engagement on the design of the Cleaner Fuels Program. Australia requires a coordinated national approach to developing a domestic low carbon liquid fuels sector that can support decarbonisation in hard to abate industries while strengthening sovereign fuel security and manufacturing capability.

Clear policy signals and well structured market mechanisms within the Cleaner Fuels Program will be essential to guide industry investment, regulatory alignment and long term sector development. Powering Australia supports this work and draws on extensive industry engagement and previous submissions to inform this response. As a Federally funded Industry Growth Centre, our mission is to grow Australia's clean tech manufacturing base and support improved outcomes for First Nations communities.

This submission outlines practical measures to address barriers to investment and development, including the need to encourage private capital, streamline development approvals and strengthen domestic supply chains that support emissions reduction across hard to abate sectors. We outline the policy, technology and investment settings needed to establish a nationally coordinated framework that provides clear, consistent signals to investors. Such a framework is essential to scaling the industry and unlocking significant productivity gains.

Powering Australia supports measures that enhance national alignment and enable the timely development of a competitive low carbon liquid fuels sector.

We look forward to contributing to the next stage of this work.

Kind regards,

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Powering Australia

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Introduction

Australia's transition to low carbon liquid fuels requires early, well targeted investment to establish a viable domestic industry and support decarbonisation in sectors that are difficult to electrify and remain hard to abate. The Cleaner Fuels Program provides a timely opportunity to accelerate this transition by directing incentives toward projects capable of delivering commercial scale production, attracting private investment, strengthening sovereign capability, and generating meaningful economic and employment opportunities in regional areas and First Nations communities.

For the Cleaner Fuels Program to be effective, it should prioritise scalable solutions that align with the needs of industry segments where alternative technologies are not yet technically or commercially feasible. Supporting projects that integrate low carbon liquid fuels production with existing supply chains will be critical to achieving efficient cost outcomes, improving operational reliability, and building early market confidence. The Program should also review the opportunity for the removal of the diesel excise on renewable fuels to lower costs for users and strengthen investment certainty for domestic production through the alignment of excise schedules, Fuel Tax Credit arrangements and related mechanisms to ensure a genuinely zero or near zero effective excise rate.

Biogenic feedstocks are likely to underpin the first phase of domestic production. These projects will be essential in establishing Australia's market foundations, workforce capability, and supply chain readiness. However, biogenic supply chains are inherently variable and subject to long term constraints. To ensure reliability and competitiveness over time, the Cleaner Fuels Program must adopt a forward looking approach that supports the development and commercialisation of Power to Liquids technologies. A structured funding pathway that enables Power to Liquids proponents to progress from technology readiness to commercial readiness will be fundamental to meeting future domestic demand beyond the limits of biogenic feedstock supply.

In parallel, the Cleaner Fuels Program design should encourage investment in more efficient production technologies and domestic manufacturing capability. This will help build the skills, industrial capability, and innovation ecosystem required for a competitive long term industry. These priorities align directly with the Government's Future Made in Australia agenda and the Community Benefit Principles that ensure public and private investment delivers tangible benefits for local workers and businesses.

A balanced dual pathway that supports early biogenic production while enabling Power to Liquids technologies to scale will strengthen Australia's long term low carbon liquid fuel supply, accelerate decarbonisation in hard to abate sectors, and improve national fuel security through a more diverse and resilient domestic production base. This approach positions the Cleaner Fuels Program to play a significant role in establishing a sustainable and competitive low carbon liquid fuels industry capable of meeting Australia's future energy security and emissions reduction needs.

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Response to Questions

1. Eligible fuels

1.1 – Which LCLF should be eligible and why?

Fuel types that can readily be produced domestically and at scale using existing natural resources (i.e. ethanol to jet) and technologies that will deliver reliable, scalable and efficient production capability should be eligible. Fuel production should target hard to abate sectors with mandates to reduce emissions, such as sustainable aviation fuel (SAF) and renewable diesel (RD). Previous consultation by the Australian Government has confirmed strong industry support and off take demand for these fuel types.

The Cleaner Fuels Program should only consider low-carbon liquid fuels that can meet an agreed lifecycle carbon-intensity threshold. Eligibility should be defined by alignment with the expanded Guarantee of Origin framework for LCLF and internationally recognised sustainability schemes.

1.2 – Should certain LCLF types be prioritised?

- Sector-based prioritisation

Prioritise fuels where electrification is least feasible and where there are clear policy signals (e.g. aviation under ICAO LTAG 2050) and demand off takers.

SAF for international and domestic aviation; and renewable diesel initially for long-haul heavy vehicles and mining applications.

Initially, development of biogenic fuels that can readily be scaled should be prioritised to take advantage of existing technologies and feedstocks.

- De-prioritisation

De-prioritise fuels and markets for sectors with low cost alternative decarbonisation pathways, e.g. light commercial vehicles where BEVs are already scaling quickly.

- Market impacts

Establish clear priority settings in partnership with industry (producers and off takers) to reduce investor uncertainty and facilitate crowd-in private capital to targeted sectors. Establish a separate program to support investment in other evolving pathways to meet longer term outcomes that are fuel agnostic (i.e. power to liquids, algae etc).

2. Type of production support

2.1 – Fixed vs variable production credit

In a nascent LCLF market for established technologies, the preferred approach is to provide a fixed $/L credit as it provides strong bankability and simplifies revenue modelling for financiers. This option provides high investor certainty, but from a government perspective, there is a risk of

windfall gains if LCLF prices spike. This issue can be mitigated through the introduction of credit caps over time and / or the use of clawback triggers when market prices materially exceed modelled expectations.

A dedicated innovation stream of funding should support higher-risk power to liquids projects (eSAF, renewable diesel) with tailored CAPEX and OPEX support to bring these technologies down the cost curve.

2.2 – Prioritising lowest cost (per litre vs per tCO_2-e)

Powering Australia supports a merit order based on abatement cost, with parallel metrics:

- $/L for volume focused outcomes (fuel security, market creation).
- $/$tCO_2$-e abated to reflect climate impact with a minimum lifecycle emissions floor (i.e. 50% lifecycle emissions abatement) and reward for demonstrated higher-performing fuels.

2.3 – Credit linked to volume vs carbon savings

As noted in 2.2 above, the preference would be for a volume based payment with a carbon-intensity "multiplier" that is scaled based on verified lifecycle emissions reduction.

This approach maintains operational simplicity for producers and investors while providing government with a lever to incentivise deeper lifecycle decarbonisation as and when required.

2.4 – Domestic vs international cost to deploy LCLF

The Cleaner Fuels Program design should explicitly favour projects that integrate into existing freight, fuel and agricultural supply chains, maximising commercial off take opportunities and minimising logistics and infrastructure duplication.

Additionally, domestic production delivers sovereign fuel security, improves manufacturing capability, develops new, more efficient supply chains, and facilitates regional economic benefits, all consistent with the Cleaner Fuels Program goals.

2.5 – Cap on total value of production credits

Powering Australia supports a per project cap based on:

- Modelled viability gap over a ten-year incentive horizon.
- Aggregate Program budget / portfolio diversification objectives that focus on supporting the development of a scalable long term LCLF sector initially targeted at SAF and Renewable Diesel.
- Caps should be transparent to enable bid optimisation.

2.6 – Domestic supply vs export

Subsidised fuels should be supplied to the Australian market, not exported. Government subsidies should be conditional on LCLFs being used to decarbonise domestic aviation and heavy transport, at least for the duration of support agreements. Export may develop organically after a domestic market is established but should not be the primary use of subsidised volumes.

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2.7 – Combined production support + capital grants

There is a requirement for combined support for first-of-a-kind / early commercial projects for power to liquids and novel feedstock proposals:

- Capital grants and/or concessional finance to derisk technology and construction.
- Production incentives to derisk offtake agreements and market development.

2.8 – Other funding / concessional finance (CEFC, NRF, etc.)

There may be a need to review the investment mandate and risk appetite of existing government bodies, such as the CEFC and the NRF, to unlock finance and equity to support the initial development of the LCLF sector, in particular the development of core and enabling infrastructure. This could include:

- CEFC: senior or mezzanine debt, project aggregation facilities, and equity for enabling infrastructure.
- NRF / Future Made in Australia mechanisms: equity or cornerstone investment in industrial hubs (feedstock, hydrogen, CO_2, port infrastructure).
- State-based clean energy funds and ARENA for pre-FID innovation, pilots, and integration studies.

2.9 – Other supply chain support

Facilitating across all levels of government the development and approval of biogenic feedstock supply chains for agriculture and waste to enable consistent and reliable inputs into the LCLF production processes.

2.10 – Lessons from other jurisdictions

Key lessons from US and European schemes:

- Provide long-term rules and policy certainty through 10+ year support horizons, using bankable and stable mechanisms such as per unit production credits or well-defined Contracts for Difference.
- Clear eligibility and sustainability rules and standards are essential to crowd in capital.

3. Fuel production

3.1 – Prioritised production pathways

Prioritise commercial ready, biogenic pathways in the near term (HEFA, HVO, and Fischer Tropsch) to achieve rapid deployment and job creation in regional manufacturing facilities.

In parallel, allocate a defined portion of the program funding to Power to Liquids technology development (e.g. eSAF, renewable diesel) to build long term capability in renewable electricity and hydrogen value chains.

Facilities should be planned and located to align with existing supply chains and key offtake sectors (near major agricultural feedstock regions and adjacent to key aviation hubs, intermodal freight nodes and ports).

3.2 – Minimum facility size

Minimum thresholds should ensure projects are large enough to supply regional aviation and heavy road/marine offtake, and support sustainable manufacturing jobs and local supply networks.

3.3 – Carbon-intensity threshold

Powering Australia supports a minimum lifecycle emissions reduction threshold (e.g. ≥50% vs fossil comparator), in line with stakeholder feedback and other jurisdictions. This evaluation method should align with the Guarantee of Origin framework and recognised international schemes (e.g. CORSIA, EU RFNBO/RED methodology).

3.4 – Other sustainability criteria

Other sustainability criteria could address:

- Land and water impacts, biodiversity, and soil health.
- Food and fibre security and competing land uses.
- First Nations engagement and benefits, consistent with Community Benefit Principles.

3.5 – Schemes to verify sustainability

Allow recognised schemes such as:

- Domestic schemes under the Guarantee of Origin and any emerging Australian standard for bioenergy and LCLF.
- CORSIA-eligible sustainability certification for SAF.
- EU-recognised schemes under RED/RefuelEU for exports.

4. Other policy considerations

4.1 – Factors affecting merit

Support the listed merit factors that prioritise:

- SAF and renewable diesel production for domestic aviation and heavy transport,
- Integration with existing fuel and freight supply chains to minimise delivered cost and accelerate uptake,
- Local manufacturing and equipment supply opportunities, and
- High lifecycle abatement and strong sustainability outcomes.

4.2 – Community Benefit Principles under FMIA

Emphasise that LCLF projects can be structured as regional manufacturing anchors:

- Co-located with agricultural, waste and logistics hubs,
- Long-term regional employment, training and supply chain participation,
- Partnerships with First Nations communities in equity participation, feedstock supply, and land management, and
- Local procurement and skills development.

4.3 – Overseas policy interactions

Global policy settings drive demand and investment competition; without a coherent federal framework, Australia risks losing projects offshore.

The Cleaner Fuels Program should be explicitly aligned with federal policy in electrification, hydrogen and grid investment so that:

- LCLF is positioned as part of a cohesive zero-emissions transport strategy, not as a silo, and
- LCLF subsidised production is developed for domestic demand (allowing for overseas investment to develop export level projects in Australia to drive technology evolution and domestic competition).

4.4 – Other measures to reach FID

In addition to production credits, FID will depend on:

- Regional offtake frameworks (airlines, freight operators, mining and heavy industry) that link production volumes to long term contracts and minimise transport costs, and
- Planning/approvals pathways for energy and industrial precincts that co-locate LCLF, electrification, hydrogen and grid infrastructure.

4.5 – Intersecting policies

The Cleaner Fuels Program should be designed in concert with:

- Future Made in Australia,
- National jobs and skills programs,
- Regional Investment Framework,
- National electrification and hydrogen strategies,
- Grid investment and transmission planning, and
- Aviation, freight and heavy vehicle decarbonisation pathways.

4.6 – Other feedback

Removing the diesel excise on renewable fuels would deliver a clear and durable price signal to accelerate uptake and improve project bankability in hard to abate sectors. This will require a coordinated review of excise schedules, Fuel Tax Credit arrangements and related grant mechanisms to ensure a genuinely zero or near zero effective excise rate without unintended complexity or double counting.