skytree

To: Department of Infrastructure, Transport, Regional Development, Communications and the Arts

Re: Consultation on the Cleaner Fuels Program – Powering low carbon liquid fuel production in Australia

December 3, 2025

Executive Summary

Skytree welcomes the Australian Government's strategic initiative to establish a Cleaner Fuels Program. As a European developer of Direct Air Capture (DAC) technology that has just established an Australian entity, we view Australia as a prospective global leader in the production of low carbon fuels (e-fuels), leveraging country's exceptional renewable energy potential and land capacity as we as the local need for energy security.

To ensure the long-term success and international competitiveness of Australia's Cleaner Fuels industry, we respectfully submit that the definition of eligible carbon feedstocks in the hydrogen-carbon e-fuel pathway, is a pivotal choice.

We advocate for a regulatory framework that prioritizes **Circular Carbon Feedstocks**, specifically Direct Air Capture (DAC) and Biogenic Carbon (BioCCU), while approaching fossil-derived CO2 with caution. We believe that aligning Australia's "Low Carbon" definitions with emerging international standards, particularly those in the European Union, is essential to secure export markets, attract durable investment and achieve genuine climate goals.

1. Harmonizing with International Standards to Secure Export Markets

Most e-fuel projects rely not just on the domestic but on the export markets. This means that the low carbon fuel produced in Australia must be tradeable in premium global markets. The European Union has established clear regulatory trajectories that will restrict the eligibility of fossil-derived CO2 in the low carbon fuel production in the near future.

To avoid trade barriers, we recommend Australia considers the following EU regulatory precedents:

- **Finite Windows for Fossil Carbon:** Under EU regulations for Renewable Fuels of Non-Biological Origin (RFNBOs), CO2 captured from electricity production is eligible only until 2036, and from other industrial sources until 2041.
- **Transition to Non-Fossil Sources:** Following these sunset dates, fuel producers will be required to source carbon from non-fossil origins, such as DAC or sustainable biomass, to count towards renewable targets.

If the Cleaner Fuels Program encourages long-term reliance on fossil CO2 without these deadlines, it risks incentivizing production facilities that may become non-compliant with

Skytree B.V.
www.skytree.tech
info@skytree.tech
KvK: 61020796
Science Park 301
1098 XH AMS, NL

international standards within 15 years. Aligning definitions now will future-proof Australian fuels for export.

2. Ensuring Climate Integrity through Circular Carbon

The core value proposition of LCLF is the ability to close the carbon cycle in order to achieve the climate goals. While capturing fossil CO2 prevents an immediate emission, it results in that carbon being released upon fuel combustion and transportation, effectively **delaying rather than eliminating** the emission.
Moreover, it perpetuates the constant dependence on the fossil fuel industry.

To achieve a true circular economy, we advocate for the adoption of a "Circular Carbon Feedstock" definition. This definition explicitly includes:

- **Sustainable Biogenic Carbon:** Which utilizes natural carbon cycles
- **Captured Carbon from the Air (DAC):** Which allows for the production of fuels with no new fossil carbon addition to the atmosphere

International bodies like the IPCC have highlighted that closing carbon loops through using biogenic CO2 is important to reach net zero for the carbon needed in society. By prioritizing these sources, Australia can ensure its fuels deliver the high-integrity climate benefits that investors and offtakers increasingly demand.

3. Future proofing for infrastructure

We acknowledge the "ramp-up" phase where industrial carbon management is still maturing. However, investing in fossil carbon capture infrastructure creates a "lock-in" effect. It incentivizes the continued operation of fossil fuel emitters simply to provide feedstock for the fuel industry.

- **Stranded Assets:** State aid and public funding should be directed toward technologies that are sustainable in the long term. Supporting fossil capture risks locking in technologies that will soon be restricted in major markets.
- **Infrastructure Efficiency:** CO2 transport infrastructure should be designed for all pathways, but specifically to connect biogenic and atmospheric sources to producers. Relying on point-source capture restricts fuel production to only specific industrial zones

Final Recommendations

To maximize the effectiveness of the Cleaner Fuels Program, Skytree proposes the following adjustments:

1. **Define a "Circular Carbon" Standard:** Adopt a clear definition for "Circular Carbon Feedstocks" that includes captured carbon from the air and biogenic sources, distinct from fossil sources.
2. **Incentivize Non-Fossil Pathways:** Ensure that "market-pull mechanisms" (such as mandates or subsidies) prioritize fuels produced with DAC and BioCCU, acknowledging their higher environmental value and cost structures
3. **Implement Sunset Clauses for Fossil CO2:** If fossil CO2 is permitted as a transitional feedstock to aid industry scaling, we recommend enacting clear deadlines and a phase out process

Conclusion

Australia stands at the top of a major economic opportunity. By setting high standards for carbon feedstock eligibility today, the Government can ensure that the Cleaner Fuels Program builds a resilient, export-ready industry that is consistent with a net-zero future for Australia. Skytree is eager to contribute our expertise in Direct Air Capture to help Australia realize this ambition.

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