

Decarbonising Australian fuel use while supporting Australia's resilience and sovereign capability

Submission to the Australian Government's consultation papers on the National Renewable Gas Policy, Securing Australia's Cleaner Fuels Industry, and Strengthening Australia's Fuel Security and Resilience

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Executive summary

The three consultations now underway will influence which technologies become commercially available, which infrastructure is built or retained and which choices industrial and transport users have when major assets are replaced.

AIDC supports stronger fuel security, an Australian low carbon liquid fuels (LCLF) industry and credible renewable gas markets. However, we are concerned about designing these policies predominantly around the existing fuel system. Mandates, storage support, refinery support and infrastructure investment can make incumbent pathways progressively easier to use. If emerging alternatives do not receive equivalent attention to their own demand, infrastructure and investment barriers, Government can narrow future technology choices while appearing to leave them open.

Methanol illustrates this risk. Low emissions methanol is recognised elsewhere in Government policy and project support, including as a prospective maritime fuel, but it has received little explicit attention in the development of the LCLF market framework. If Government expects methanol to play a future role, including in shipping or aviation fuel supply chains, that role should be considered explicitly when demand, infrastructure and market formation policy is designed.

Fuel and energy policy should preserve the ability of industrial users to operate competitively through the transition while expanding the set of credible low carbon options available when major investment decisions are made. That requires Government to distinguish between fuels that can reduce emissions from assets operating today and the technologies likely to serve the next generation of assets.

Production support alone does not make emerging fuels investable. Projects need customers, infrastructure and commercial arrangements that can support financing and long-lived investment. Biological feedstocks create an additional constraint because biomass and biogenic carbon are finite and cannot be assumed to satisfy every projected use across biomethane, SAF, renewable diesel, biological hydrogen production and other markets. Government should therefore plan constrained feedstocks and common infrastructure across the competing transition pathways expected to depend upon them.

For the proposed LCLF demand mechanism, lifecycle carbon intensity should influence compliance value from commencement. The mechanism should create a market large and durable enough to support investment while rewarding fuels that deliver greater verified lifecycle emissions reductions. Government should also be explicit about the Australian production capability it intends the combined LCLF policy package to establish, the expected contribution of imports and whether production support, infrastructure, procurement and the demand mechanism are sufficient to make that domestic capability investable.

Fuel security should likewise be planned for the system Australia is moving towards. Strategic stocks, storage and existing refining capability remain important through a lengthy transition, while resilience policy should also consider closely connected industrial inputs whose disruption can affect essential activities. Fertiliser is a clear example: Australia's exposure to urea supply affects agricultural production, and technical-grade urea is also required for AdBlue used across freight, mining and other diesel dependent activity. The appropriate response may involve domestic production, diversified imports, strategic stocks or a combination of measures, depending on the vulnerability.

Recommendations

Across the three consultations, AIDC's central proposition is that Government should assess the productive capability an intervention retains, transforms or creates, the barrier it resolves and the future options it preserves. Current fuel security and the development of future lower-emissions alternatives should be planned together.

Recommendation 1: Design LCLF and renewable gas policy around how industrial and transport users are expected to transition, including when major assets are replaced.

In finalising the LCLF and renewable gas frameworks, the Australian Government should test proposed policy settings against representative industrial and transport investment pathways. This should include mines, major industrial facilities and transport users, and consider fuel costs, lifecycle emissions, technology availability, infrastructure, Safeguard obligations, asset replacement cycles and the timing of major investment decisions.

The purpose of this work should be to ensure that policy supports emissions reduction from existing assets while preserving credible options for the technologies and fuels that may be needed when those assets are replaced. Support for fuels or infrastructure that can be deployed through the existing system should not make alternative pathways unavailable when a user reaches its next major investment decision.

Recommendation 2: Where Government expects an emerging fuel or industrial product to play a material role in the transition, create the market and supply chain conditions required to make that pathway investable.

Where national transition pathways rely on emerging fuels or industrial products, the Australian Government should develop the demand, infrastructure and commercial conditions required for credible Australian projects to reach investment. Where several end markets can support the same production chain, policy should consider their combined contribution rather than treating each market separately.

Government should specifically examine low emissions methanol as a cross-sector pathway, including its prospective use in maritime fuel markets and aviation fuel supply chains, and identify whether existing policy provides a credible route from Australian production to those end markets.

Recommendation 3: Design the National Renewable Gas Policy to preserve credible industrial pathways across biomethane, renewable hydrogen and other renewable gases.

In developing the National Renewable Gas Policy, the Australian Government should ensure that support is capable of responding to the different renewable gas pathways that may be required by industrial users. Biomethane can provide a strong option where suitable feedstock and infrastructure are available, while renewable hydrogen and other renewable gases may provide stronger long-term pathways for particular industrial processes, feedstocks and future production systems.

Policy and certification frameworks should also be capable of recognising different renewable hydrogen production pathways where they can demonstrate robust lifecycle emissions performance, rather than unnecessarily limiting eligibility to particular production technologies.

The proposed Domestic Supply Obligation renewable gas premium should be developed as one market formation tool, with sufficient duration and revenue certainty to support investment and with robust certification, lifecycle emissions accounting and safeguards against double counting. Its design should not make access to existing gas infrastructure the determining factor in which renewable gas pathways are able to develop. Where renewable hydrogen or another renewable gas provides a credible industrial pathway, policy should provide a practical route for that pathway to reach investment as well.

Recommendation 4: Maintain a national view of bioenergy feedstock availability, production inputs and competing uses.

The Australian Government should maintain an evidence base on the sustainable biomass and biogenic carbon likely to be available across Australia, the agricultural and other inputs required to produce projected supply, and competing demand from biomethane, SAF, renewable diesel, biological hydrogen production and other fuel and industrial uses.

The analysis should identify where constrained biological resources can deliver the greatest emissions, industrial and system value, and inform decisions on demand measures, production support and infrastructure. It should also consider how expanded feedstock production interacts with food and fibre production, including dependencies on land, water, nutrients and fertiliser supply.

Recommendation 5: Plan and support common user infrastructure according to the full range of industries and transition pathways it can enable.

Where transmission, renewable generation, hydrogen infrastructure, ports, storage, water, pipelines or other enabling assets can support several credible industrial users or emerging markets, the Australian Government should recognise that wider value in infrastructure planning, financing and decisions about public support. The economics of the first project should not be the sole test of infrastructure that may become efficient and valuable as additional users connect.

Government should also identify the dependencies between common user infrastructure, industry support, customer markets, Safeguard obligations and sector transition pathways early enough to influence investment decisions. Where first mover or early utilisation risk prevents otherwise credible projects from proceeding, Government should consider structures that allow risk and cost to be shared across future users and public and private participants. The objective should be to prevent a missing piece of common user infrastructure from closing off several viable industrial transition pathways at once.

Recommendation 6: Plan fuel security around the capability Australia will need over the life of the investments now being supported.

In implementing the Australian Fuel Security Reserve, additional stockholding requirements and any continuing support for refining and storage, the Australian Government should plan for the fuel system Australia is expected to need over the life of those investments. This should include the changing role

of existing refining and storage assets, domestic production of low carbon fuels, diversified import supply and the infrastructure required for emerging fuels.

The objective should be to strengthen resilience through the transition while avoiding public investment that unnecessarily locks Australia into the current fuel mix. Existing assets should be supported where they continue to provide valuable security capability and can adapt economically as demand changes. At the same time, Government should identify and address infrastructure or investment gaps that would prevent future domestic fuel and industrial capability from developing.

Recommendation 7: Apply a wider resilience test to fuel security and closely connected critical industrial inputs.

In implementing the Fuel Security Strategy and considering future resilience measures, the Australian Government should examine vulnerabilities that could disrupt fuel supply or the essential activities that depend on it. This should include critical industrial inputs where their interruption could constrain freight, agriculture, mining, manufacturing or other essential functions. We recommend fertiliser supply, including urea, as a priority for further government action to support Australian resilience and sovereign capability.

Recommendation 8: Apply lifecycle carbon intensity to the LCLF demand mechanism from commencement.

The Australian Government should design the LCLF demand mechanism so that verified lifecycle emissions performance affects compliance value from the beginning of the scheme. Fuels delivering greater lifecycle emissions reductions should receive greater value within the mechanism, supported by robust measurement, certification and accounting.

This is particularly important during the period in which the Australian industry is being established. Investment made between 2029 and 2035 will shape production capacity, infrastructure, feedstock demand and customer relationships for many years. The mechanism should therefore reward the emissions performance Government ultimately wants the market to deliver from the point at which those investment decisions are being made.

Recommendation 9: Retain specific treatment for aviation within the LCLF demand mechanism, including the separate jet fuel requirement from commencement.

The Australian Government should retain the proposed separate treatment for jet fuel in recognition of aviation's limited near and medium-term alternatives to liquid fuels and the need to establish a viable SAF market alongside other LCLF markets. The design should provide sufficient demand certainty for SAF production and associated supply chains to develop without requiring SAF to compete solely against lower cost fuels serving end uses with a wider range of alternatives.

Similar treatment may be appropriate for other applications where Government can demonstrate that alternatives are materially constrained and a distinct market is required to bring forward production. Any such treatment should be based on the characteristics of the end use and the transition pathway Government is seeking to establish.

Recommendation 10: Retain the option for the LCLF mechanism to recognise direct displacement of fossil liquid fuels through electrification and renewable hydrogen.

As the LCLF mechanism develops, the Australian Government should retain the ability to recognise investments that directly and verifiably displace fossil liquid fuel use where electrification, renewable hydrogen or another technology provides the stronger emissions and industrial pathway for the user.

Any future crediting should be based on measured fossil fuel displacement and verified emissions reduction, avoid double counting with other policy mechanisms and preserve sufficient demand to support investment in LCLF production. The purpose should be to direct low carbon liquid fuels towards applications in which they provide enduring value while allowing users with viable alternatives to move to those technologies as assets and equipment are replaced.

Recommendation 11: Define the Australian production outcome the LCLF policy package is expected to deliver.

In finalising the LCLF demand mechanism and Cleaner Fuels Program, the Australian Government should publish its assumptions for Australian production through 2030 and 2035, including the share of demand it expects to be met by Australian production, and test whether the combined policy package is sufficient to deliver that outcome.

Recommendation 12: Understand and manage how the costs of the LCLF demand mechanism will move through industrial, transport and fuel value chains.

In finalising the LCLF demand mechanism, the Australian Government should model how compliance costs are likely to be passed through by fuel suppliers and where those costs ultimately land across transport, mining, industrial production and other major fuel users. The analysis should identify users with limited capacity to change fuel use in the near term, limited ability to recover higher costs from customers, or significant exposure to international competition. It should also account for interactions with Safeguard obligations and other fiscal settings affecting the same fuel use.

Where the mechanism would impose material or disproportionate costs on foundational industrial capability or other Australian activities with a demonstrated public interest or resilience case, Government should consider complementary measures that address the identified competitiveness or transition problem while preserving the emissions reduction and demand signal created by the LCLF policy.

Recommendation 13: Use Government procurement and strategic reserves as anchor demand where this can meet a genuine public requirement and help establish useful Australian production capability.

The Australian Government should use its own fuel demand strategically where procurement can satisfy an existing public requirement while also helping credible Australian production reach commercial scale. This should include Defence and other Government fuel purchasing where operational requirements allow, and consideration of Australian-produced LCLF for the Australian Fuel Security Reserve where fuel specifications, storage characteristics and stock management requirements can be met.

Procurement should be designed to provide commercially useful demand and should be coordinated with infrastructure and market development where an early Government customer can help establish initial utilisation. Where common user infrastructure will ultimately serve several users, Government demand may also help reduce the early utilisation risk that would otherwise prevent the first production or infrastructure investment from proceeding.

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1. Introduction

The Australian Industrial Decarbonisation Council welcomes the opportunity to respond to the Commonwealth's consultations on renewable gas, low carbon liquid fuels (LCLF), and fuel security. AIDC has chosen to respond to the three consultations together because the choices being considered across them will help determine the shape of Australia's future energy and industrial system.

Government is considering mandated demand for LCLF, measures to stimulate renewable gas production, a major strategic fuel reserve, additional fuel storage and continuing support for domestic refining. These are significant interventions that will influence which projects can reach investment, which fuels develop scale, which infrastructure is built or retained, and which technology options are available to industrial and transport users over the coming decades.

AIDC supports the development of an Australian LCLF industry and a strong demand policy capable of helping projects reach investment. We also support renewable gases where they provide credible decarbonisation pathways. Conventional fuels and strategic stocks will also remain important through a lengthy transition.

The larger policy question is which capabilities these interventions cause Australia to retain, transform or build. Using existing infrastructure has economic and practical value where assets have substantial remaining lives or security requirements demand continuity. Policy should avoid a self-fulfilling cycle in which inadequate support for alternatives produces low uptake and continued reliance on incumbent pathways.

Mandates create customers, infrastructure investment affects which technologies can be deployed, and public support changes project economics. The interventions now being considered will themselves shape the future system and should be assessed against the options they make easier to develop as well as the capability they preserve.

The Climate Change Authority's Sector Pathways Review, the Net Zero Plan and the sector plans describe a transition extending well beyond substitution within the existing fuel system. They envisage large-scale electrification, hydrogen and alternative industrial inputs, new maritime fuels, new production processes, progressive replacement of transport and industrial assets, and increasingly targeted use of liquid and gaseous fuels where alternatives remain difficult.

This creates a central industrial policy task. Australia needs to reduce emissions from the assets operating today while establishing the technologies, infrastructure, supply chains and production capabilities required for the assets and industries that will operate tomorrow. Decisions across the three consultations should be assessed against both requirements.

2. Design fuel policy around how users will actually transition

Future demand for low carbon fuels will depend on what users need to power, heat or move, and which technologies are available to meet those needs. AIDC considers that LCLF and renewable gas policy should therefore be designed around expected end use transition pathways as well as aggregate fuel volumes.

The Government's wider transition framework anticipates substantial electrification, which will reduce future liquid fuel demand in some applications that consume large volumes today. The Transport Infrastructure Net Zero Roadmap and Action Plan¹ gives priority to electrification and energy performance where those pathways are viable, with low carbon fuels playing a larger role where electrification is difficult. The Resources Sector Plan² similarly anticipates increased electrification as technologies and supporting infrastructure become available. Initial fuel coverage should be tested against end use transition pathways so that the mechanism reduces emissions from the existing fleet without creating a durable incentive to preserve liquid fuel demand in applications where electrification is expected to become the stronger pathway.

2.1 Asset replacement will reshape fuel demand

We can see that the role of low carbon fuels will differ between end uses and over time. Drop in fuels can provide considerable value by reducing emissions from existing vehicles, vessels and equipment without requiring their immediate replacement. For example, renewable diesel may provide an important transition pathway for an existing diesel fleet, while sustainable aviation fuel is expected to remain an important part of aviation decarbonisation for much longer because the alternatives available to aviation are more limited.

This makes asset replacement a critical point in the transition. When a fleet, vessel or major item of industrial equipment reaches the end of its useful life, the user may face a much wider choice of technologies than was available when the existing asset was purchased. Policy therefore needs to distinguish between fuels that help reduce emissions from existing assets and fuels that are likely to remain important after the next generation of assets is purchased.

Australia is also a technology taker for much of its transport and industrial equipment. The vehicles, vessels and machinery available to Australian users will increasingly reflect global manufacturing decisions, infrastructure development and fuel markets. Long-lived investment in one fuel system should therefore take account of how global equipment and technology choices are expected to change over the life of that investment.

Government policy can influence these choices well before an asset is replaced. Mandated demand can encourage production, storage, logistics and infrastructure around a particular fuel, making that pathway easier and cheaper for users to adopt later. Where several technologies could serve the same

¹ Australian Government, Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts (2025) [Transport Infrastructure Net Zero Roadmap and Action Plan](#), September.

² Australian Government, Department of Industry, Science and Resources (2025) [Resources Sector Plan](#), September.

end use, Government should therefore consider the full range of credible pathways and how its combined support for fuels, production and infrastructure may affect the choices available when the next investment decision is made.

This is particularly relevant where renewable electricity could be used directly, converted to hydrogen, or used to produce a liquid fuel. These pathways have different costs, energy requirements, infrastructure needs and emissions outcomes. Their relative value should be assessed for the particular end use and against how the technologies are expected to develop over time. These comparisons should be made on the cost of delivering the required service at the point of use, including conversion efficiency, storage, transport, infrastructure and equipment costs.

2.2 Fuel policy and Safeguard affect the same investment decisions

For a Safeguard covered facility, fuel policy and emissions policy can affect the same investment decision. A mine approaching replacement of a haul fleet may be choosing between another generation of liquid fuel equipment, battery electric equipment, trolley assist, hydrogen technologies or combinations of these systems. Mine life, power availability, infrastructure, technology readiness, production requirements, capital timing, fuel cost and availability, and Safeguard obligations will all affect that choice.

For an industrial gas user, the equivalent decision may involve continued natural gas use, biomethane, electrification, hydrogen, process change or alternative feedstocks. The strongest pathway will depend on the facility, the timing of the investment decision and the infrastructure available to support each option.

Fuel policy can change the economics of these choices. Support for one fuel may make that pathway more attractive, while the absence of infrastructure or market support for another may prevent it from being a realistic option when the investment decision is made.

For industrial users, fuel policy is one part of the wider architecture that determines the **actionable abatement frontier**: the emissions reductions a facility can realistically implement given technology, energy and feedstock supply, infrastructure and the relevant investment window. A carbon obligation can improve the relative economics of an alternative pathway. The pathway becomes actionable only when those enabling conditions can be delivered. Fuel policy can therefore expand or constrain the physical choices available when the investment decision is made.

AIDC recommends that final LCLF and renewable gas settings be tested against representative industrial and transport investment pathways, including how the proposed settings interact with technology availability, infrastructure, Safeguard obligations and asset replacement timing.

This analysis would also provide a stronger basis for estimating future fuel demand. Government should identify which major uses of diesel, jet fuel, gas and other fuels are expected to persist, which are expected to decline as assets are replaced, and where low carbon fuels are likely to provide a transition pathway or an enduring solution.

The same view of future user demand should also inform fuel security policy. As the composition of fuel demand changes, assumptions about future diesel, jet fuel and other fuel use will affect the

appropriate mix of strategic stocks, storage, refining and domestic production. These issues are addressed further in Section 4.

Safeguard provides one regulatory lens on these decisions for covered facilities, but the underlying investment problem is broader. Large industrial and transport users outside the Safeguard Mechanism also make long-lived asset and fuel choices in response to the same technology, infrastructure, fuel price and market conditions. AIDC's parallel submission to the 2026-27 Safeguard Mechanism Review considers how those conditions should be reflected in the obligations and transition pathways of covered facilities. The recommendations in this submission address the fuel, infrastructure and market conditions that shape those investment decisions across the wider economy.

Recommendation 1: Design LCLF and renewable gas policy around how industrial and transport users are expected to transition, including when major assets are replaced.

In finalising the LCLF and renewable gas frameworks, the Australian Government should test proposed policy settings against representative industrial and transport investment pathways. This should include mines, major industrial facilities and transport users, and consider fuel costs, lifecycle emissions, technology availability, infrastructure, Safeguard obligations, asset replacement cycles and the timing of major investment decisions.

The purpose of this work should be to ensure that policy supports emissions reduction from existing assets while preserving credible options for the technologies and fuels that may be needed when those assets are replaced. Support for fuels or infrastructure that can be deployed through the existing system should not make alternative pathways unavailable when a user reaches its next major investment decision.

3. Build connected markets for emerging fuels and industrial products

One of the most important features of the LCLF work is its recognition that production support alone does not create an industry. Projects also need customers, credible demand and commercial arrangements that allow investment to proceed.

AIDC welcomes this recognition. Australian hydrogen policy illustrates the consequences of insufficient attention to demand. Substantial technology and production support produced a large prospective pipeline, but many projects struggled to secure customers, infrastructure and durable commercial arrangements. The subsequent contraction of the project pipeline reinforces the need to connect future support directly to industrial uses, customer markets, electricity supply and enabling infrastructure. Hydrogen remains a credible industrial feedstock, process input or fuel in particular applications, but prospective production needs a route to investment.

Market formation measures also need to operate for long enough to support investment. Short trials can demonstrate technical performance and build experience, but they do not provide the commercial certainty required to finance large production and infrastructure investments. A recurring difficulty is that projects need long-term confidence in revenue, while customers operating in competitive markets may be unable to accept equivalent long-term exposure to price and volume risk. Where Government uses procurement, demand aggregation, mandates or other measures to create an early market, the design should help bridge that mismatch. The duration and visibility of support should reflect the time needed to finance, build and operate the capability it is intended to establish. Market formation design also needs to provide for smaller and distributed projects; recent hydrogen support measures have excluded smaller and distributed production models, which has been a significant limitation.

Once Government has identified the fuels, technologies and industrial products that different sectors are expected to use, it should also examine the production chains required to supply them. Many of those chains are connected. Renewable electricity can support direct electrification or renewable hydrogen production. Renewable hydrogen can in turn support lower emissions production of ammonia, methanol and synthetic fuels. Existing ammonia already serves fertiliser production, while low emissions ammonia may also have a future role as a maritime fuel. Low emissions methanol could serve established industrial uses, shipping and SAF production.

Hydrogen is also an enabling input to important biofuel pathways. Commercial renewable diesel and HEFA sustainable aviation fuel require hydrogen for hydrotreating and upgrading, while low emissions hydrogen can also be combined with biogenic carbon to produce additional synthetic fuels. The relationship between hydrogen and LCLFs should therefore not be treated simply as competition between alternative fuels. In several pathways, hydrogen is part of the production chain required to make the liquid fuel itself and can allow constrained biological carbon resources to be used more effectively.

AIDC recommends that Government explicitly map these connections. Where a transition pathway assumes that a fuel or industrial product will play a future role, policy should identify what needs to exist across the supply chain for that pathway to become commercially available, including the required inputs, infrastructure, early customers and investment conditions.

These supply chains are also part of the physical delivery of industrial transformation. Where a sector or facility pathway assumes that a major industrial asset will move to low emissions hydrogen, ammonia, methanol, renewable gas or a low carbon liquid fuel, the corresponding production, storage, transport and handling capability must be developed on a compatible timetable. The greenfield fuel or feedstock project is often the enabling counterpart to a brownfield industrial asset transformation. Government should test both sides of the pathway together: the industrial investment that creates demand and the upstream investment that makes the new input available at the required scale, location, reliability and cost.

3.1 Connected markets can help emerging production reach investment

Emerging fuels and industrial products can support several markets, but the opportunity is not the same in every case. Methanol illustrates the potential to establish new Australian production capability around a product we no longer produce domestically at material scale, with demand potentially developing across shipping, established industrial uses and aviation fuel supply chains. Ammonia presents a different opportunity. Australia already has substantial ammonia and fertiliser demand and existing production capability, so investment can both decarbonise current production and build production, storage and handling capability relevant to future markets, including maritime fuel.

In both cases, Government should consider how current and emerging demand across different markets can combine to support production and infrastructure, and whether one market can provide an early anchor while others develop.

Methanol shows how several markets can support the same production chain

Government policy towards low emissions methanol remains fragmented across the transition framework. The release of the Maritime Emissions Reduction National Action Plan provides a clearer framework for maritime decarbonisation,³ alongside the Green Fuel Bunkering Strategy and other maritime initiatives.

However, methanol has received little explicit attention in the development of Australia's LCLF market framework, which has been much more clearly developed around sustainable aviation fuel and renewable diesel.

The project support and the market formation policy discussions perform different functions. A methanol project may be eligible for Government support without having the customer market, infrastructure or commercial conditions required to reach investment and operate at scale. Methanol also sits across policy frameworks: it can be used directly as a maritime fuel and as an input to aviation fuel production. Government should therefore consider these markets together and identify whether the combined LCLF, maritime and related policy frameworks provide a credible route from Australian production to customers.

³ Australian Government, Department of Infrastructure, Transport, Regional Development, Communications, Sport and the Arts (2026) [Australia's Maritime Emissions Reduction National Action Plan \(MERNAP\)](#), 26 August.

Investment in new production cannot wait until every future market is already mature. Production facilities, port infrastructure, storage and downstream conversion involve long term investment decisions, and choices made before demand reaches scale will influence which pathways are commercially available when that demand develops.

AIDC considers that where Government expects products such as low emissions methanol to play a material future role, market formation should begin early enough to give credible projects a pathway to customers and investment. For example, for maritime fuels this may include demand aggregation, port and shipping partnerships, procurement, standards and other measures that help bridge the period between early production and larger future demand. Book-and-claim can help bridge early production and a mature physical fuel market where producers and willing customers are not yet co-located. Any such arrangement should build on recognised Australian certification of the underlying physical fuel and its lifecycle emissions attributes, with transparent allocation and retirement of claims and robust safeguards against double counting. This can aggregate early demand and allow customers to support verified low emissions production while physical supply chains and port infrastructure develop.

Fertiliser shows how existing demand can support foundational industrial capability

Fertiliser provides a different example because the market already exists. Ammonia is a critical input into nitrogen fertiliser, including urea. Australia is currently entirely reliant on imports for urea fertiliser, and the Government reports that 62 per cent of Australian fertiliser imports come from the Middle East, with much of the remaining supply dependent on Middle Eastern gas.⁴

The disruption in 2026 demonstrated the consequences of that exposure. Government established the Fertiliser Supply Working Group and used the Fuel and Fertiliser Security Facility to support additional imports. By late June, approximately 340,000 tonnes of additional urea had been secured through the facility.⁵

Price has also become an issue for agricultural production. ABARES reports that elevated fertiliser prices are affecting planting and fertiliser use decisions, including uncertainty about whether growers will purchase high priced urea for later application. Reduced application may affect yields, while in Western Australia growers may ration fertiliser or direct it towards crops offering stronger margins.⁶

At the same time, substantial domestic production capability is being developed. Perdaman's Project Ceres in Karratha is planned to produce 2.3 million tonnes of urea a year. ARENA has also shortlisted

⁴ Department of Agriculture, Fisheries and Forestry (2026a) '[Fertiliser Supply Working Group](#)'.

⁵ Department of Agriculture, Fisheries and Forestry (2026b) '[Fertiliser Supply Working Group Meeting](#)', Government/Industry Fertiliser Supply Working Group Communiqué, 26 June.

⁶ Australian Bureau of Agricultural and Resource Economics and Sciences (2026) '[Agricultural Commodities Report: June 2026](#)', Department of Agriculture, Fisheries and Forestry, 2 June; Australian Bureau of Agricultural and Resource Economics and Sciences (2026) '[Australian Crop Report: June 2026](#)', Department of Agriculture, Fisheries and Forestry, 2 June.

Perdaman Helios, a proposed 750 MW renewable hydrogen project intended to reduce emissions from fertiliser production.⁷

This creates an opportunity to address an existing industrial and resilience need while building capability relevant to other transition markets. Renewable hydrogen can reduce the emissions intensity of ammonia production. Low emissions ammonia can supply an established fertiliser market while also developing production, storage, handling and workforce capability that may support future maritime and export markets. The electricity, hydrogen infrastructure, storage and port capability required for that production may also support other industrial users.

The relationship also runs in the other direction. Existing fertiliser demand can help create scale for low emissions ammonia and renewable hydrogen before some future fuel markets have developed. Investment made to decarbonise current industrial production can therefore help establish production and infrastructure that later supports other markets.

This is the kind of connection industrial policy should identify deliberately. The value of an investment may extend across emissions reduction, food and agricultural resilience, domestic production, emerging fuel markets and common user infrastructure.

Recommendation 2: Where Government expects an emerging fuel or industrial product to play a material role in the transition, create the market and supply chain conditions required to make that pathway investable.

Where national transition pathways rely on emerging fuels or industrial products, the Australian Government should develop the demand, infrastructure and commercial conditions required for credible Australian projects to reach investment. Where several end markets can support the same production chain, policy should consider their combined contribution rather than treating each market separately.

Government should specifically examine low emissions methanol as a cross-sector pathway, including its prospective use in maritime fuel markets and aviation fuel supply chains, and identify whether existing policy provides a credible route from Australian production to those end markets.

3.2 Renewable gas policy should preserve credible industrial pathways

The renewable gas consultation considers whether national policy should concentrate principally on biomethane or encompass a wider range of renewable gases. AIDC considers that the national framework should include biomethane, renewable hydrogen and other renewable gases where they provide credible pathways for industrial users.

AIDC supports development of a National Renewable Gas Policy where it performs a clear delivery function. Australia already has the National Hydrogen Strategy, the Net Zero Plan and sector pathways

⁷ Australian Government (n.d) '[Current Major Projects](#)', Department of Industry, Science and Resources, Project Ceres entry, accessed 24 August 2026; Australian Renewable Energy Agency (2026) '[ARENA shortlists major projects to scale Australia's renewable hydrogen industry](#)', 13 May.

describing prospective roles for renewable gases. A further national policy should translate those strategic pathways into coordinated decisions on market formation, infrastructure, certification, regulation and investment support, identify the barriers preventing credible pathways from reaching investment and assign responsibility for resolving them. A further strategy or technology roadmap would add little value.

The framework should start from the transition pathways of users. It should distinguish uses that can electrify, users that may need natural gas for a transitional period, and uses likely to retain an enduring molecular or feedstock requirement. Affordable and reliable natural gas can remain important for gas-dependent foundational industrial assets and other trade-exposed facilities while alternatives are being developed. Renewable gas policy should use that transition period to build the markets and infrastructure for lower emissions alternatives and reduce dependence on fossil gas over time.

Biomethane has clear advantages in some locations because it can use existing gas infrastructure and can provide a relatively direct substitute for natural gas. Those advantages should be recognised without assuming that biomethane will provide the strongest pathway for every gas user. For some applications, direct electrification or renewable hydrogen may provide a stronger long-term option. The appropriate comparison is the full cost and emissions outcome of delivering the required energy or industrial service, including production, conversion, storage, transport, infrastructure and end use efficiency.

The proposed domestic gas reservation can support this transition where it enables users that cannot yet substitute away from gas to secure sufficient supply at prices and on terms compatible with continued production and investment. East coast domestic gas prices remain exposed to LNG-linked market conditions, while gas fired generation can also influence wholesale electricity prices in the National Electricity Market at particular times. A successful reservation could therefore reduce direct gas costs and, at some times, wholesale electricity prices. It will not lower the capital cost of new renewable generation, transmission or industrial electrification, and cheaper gas can widen the operating-cost gap that lower emissions alternatives must overcome. Government should pair improved gas affordability with deliberate delivery of the electricity, infrastructure and alternative fuels required for industrial users to reduce gas dependence over time.

AIDC considers that the proposed renewable gas premium within the Domestic Supply Obligation warrants further development as one potential market formation tool. Its design should be tested against whether it provides sufficient and durable revenue certainty for credible projects to reach investment and whether it creates the production capability Government is seeking to establish. Renewable gas supplied through the mechanism should be supported by robust certification and lifecycle emissions accounting under recognised Australian schemes, with safeguards against double counting.

AIDC does not propose a particular multiplier in the absence of evidence at the project level. The multiplier should be calibrated against the commercial gap preventing credible projects from reaching investment and adjusted transparently as production costs and market conditions change. The premium should operate for sufficient duration to support financing, reward genuinely additional renewable gas supply and preserve the underlying domestic supply objective of the Domestic Supply Obligation.

The premium should form part of the wider market formation framework rather than become the sole pathway for renewable gas development. Where direct renewable hydrogen or another renewable gas provides a credible pathway for an industrial user, policy should retain mechanisms capable of supporting that pathway as well.

Recommendation 3: Design the National Renewable Gas Policy to preserve credible industrial pathways across biomethane, renewable hydrogen and other renewable gases.

In developing the National Renewable Gas Policy, the Australian Government should ensure that support is capable of responding to the different renewable gas pathways that may be required by industrial users. Biomethane can provide a strong option where suitable feedstock and infrastructure are available, while renewable hydrogen and other renewable gases may provide stronger long-term pathways for particular industrial processes, feedstocks and future production systems.

Policy and certification frameworks should also be capable of recognising different renewable hydrogen production pathways where they can demonstrate robust lifecycle emissions performance, rather than unnecessarily limiting eligibility to particular production technologies.

The proposed Domestic Supply Obligation renewable gas premium should be developed as one market formation tool, with sufficient duration and revenue certainty to support investment and with robust certification, lifecycle emissions accounting and safeguards against double counting. Its design should not make access to existing gas infrastructure the determining factor in which renewable gas pathways are able to develop. Where renewable hydrogen or another renewable gas provides a credible industrial pathway, policy should provide a practical route for that pathway to reach investment as well.

3.3 Shared inputs need to be planned according to their constraints

Emerging fuels and industrial products can compete for the same inputs, but the nature of that competition differs. Some inputs, particularly sustainable biomass and biogenic carbon, are inherently constrained and need to be allocated across competing uses. Others, including renewable electricity and electrolytic hydrogen, can expand over time but depend on generation, water, equipment and infrastructure being developed at sufficient scale and on the required timetable. Policy should distinguish between those problems.

Biomethane illustrates the issue. It is a commercially credible use of biological resources and can make use of existing gas infrastructure in some locations. Its value depends heavily on access to suitable feedstock, geography, transport costs and the alternatives available to the user. In some locations, a reliable source of biogas close to a gas network or industrial user may make biomethane a strong option. In others, the same biological resource may create greater value if it is used for SAF, renewable diesel or another product.

Renewable hydrogen pathways can face different constraints depending on the production route. Electrolytic hydrogen depends particularly on renewable electricity, water, equipment and associated infrastructure, while other emerging pathways may depend more heavily on biomass, biogenic carbon or waste streams. Policy should recognise these differences when assessing resource constraints, infrastructure requirements and the support required for credible projects to reach investment.

Feedstock availability also cannot be considered independently of the inputs required to produce it. Where future biofuel supply depends on expanded agricultural production or higher yields rather than waste and residue streams, the land, water, nutrients and other inputs required to produce that biomass become part of the constraint. Fertiliser is particularly relevant given Australia's existing exposure to imported urea and other fertiliser supply. Projections of future biomass availability should therefore account for the agricultural and supply chain requirements needed to produce that feedstock sustainably.

The National Bioenergy Feedstock Strategy released in August 2026⁸ provides a useful foundation for this work. Its implementation could support a broader national view of sustainable biomass and biogenic carbon availability, the inputs required to produce projected supply and competing demand across fuel and industrial uses. That analysis should be shared across relevant agriculture, energy, industry, climate and fuels policy processes so that assumptions are consistent and projected feedstock supply is not counted more than once.

Recommendation 4: Maintain a national view of bioenergy feedstock availability, production inputs and competing uses.

The Australian Government should maintain an evidence base on the sustainable biomass and biogenic carbon likely to be available across Australia, the agricultural and other inputs required to produce projected supply, and competing demand from biomethane, SAF, renewable diesel, biological hydrogen production and other fuel and industrial uses.

The analysis should identify where constrained biological resources can deliver the greatest emissions, industrial and system value, and inform decisions on demand measures, production support and infrastructure. It should also consider how expanded feedstock production interacts with food and fibre production, including dependencies on land, water, nutrients and fertiliser supply.

3.4 Common user infrastructure and policy decisions should be connected

The same system may also be required to support competing transition pathways. Renewable electricity can be used directly for electrification or upstream to produce electrolytic hydrogen and hydrogen-derived products such as ammonia and methanol. These pathways can draw on the same generation, transmission, water, storage, port and other infrastructure. Planning therefore needs to consider the combined requirements of credible industrial pathways rather than assume that each can be supplied independently. Common user infrastructure can create value across several projects and markets. Renewable generation, transmission, hydrogen infrastructure, ports, storage, water and carbon transport may all support more than one industrial pathway.

This is particularly important for first-of-a-kind developments. An individual project may be unable to carry the full cost of infrastructure that could eventually serve several users. Assessing the infrastructure only against the economics of the first project can therefore understate its wider

⁸ Australian Government, Department of Agriculture, Fisheries and Forestry (2026) [National Bioenergy Feedstock Strategy](#), 26 August.

industrial value. This principle should also apply to renewable gas infrastructure, where an initial project may otherwise be required to fund network augmentation or other enabling infrastructure that will subsequently serve a wider market.

Storage should be treated as part of the same enabling system. Government is already proposing public support for additional diesel and jet fuel storage where resilience benefits exceed private commercial returns. Where storage, handling, bunkering or other shared infrastructure for emerging fuels is required to make credible future pathways investable, it should be assessed against equivalent public interest and system criteria. The same test should apply to incumbent and emerging fuel infrastructure: what capability does it enable, what barrier is preventing investment and what public value is created?

Some production pathways may instead be distributed or co-located with feedstock and demand, reducing their dependence on major common user infrastructure. These configurations should also be considered where they provide a credible way to reduce infrastructure, sequencing or first-mover risk.

The Climate Change Authority sector pathways, sector plans, Net Zero Plan, Safeguard Mechanism and industry support programs need to work from a common view of the transition. A fuel identified in one pathway may depend on hydrogen support, electricity infrastructure, port or storage investment and a customer market delivered through separate processes. The fuel consultations should identify those dependencies explicitly and assess investments across the emissions, industrial, market and infrastructure functions they can support.

Recommendation 5: Plan and support common user infrastructure according to the full range of industries and transition pathways it can enable.

Where transmission, renewable generation, hydrogen infrastructure, ports, storage, water, pipelines or other enabling assets can support several credible industrial users or emerging markets, the Australian Government should recognise that wider value in infrastructure planning, financing and decisions about public support. The economics of the first project should not be the sole test of infrastructure that may become efficient and valuable as additional users connect.

Government should also identify the dependencies between common user infrastructure, industry support, customer markets, Safeguard obligations and sector transition pathways early enough to influence investment decisions. Where first mover or early utilisation risk prevents otherwise credible projects from proceeding, Government should consider structures that allow risk and cost to be shared across future users and public and private participants. The objective should be to prevent a missing piece of common user infrastructure from closing off several viable industrial transition pathways at once.

4. Plan fuel security for the system Australia will need

AIDC supports stronger fuel security. Australia remains heavily dependent on imported liquid fuels, while diesel and jet fuel remain essential to freight, agriculture, mining, aviation, Defence and emergency response. The proposed Australian Fuel Security Reserve, additional industry stockholding and appropriate storage therefore have a clear role in improving resilience to current and near-term supply disruptions.⁹

The more consequential question is what capability Australia will need over the life of the investments now being considered. Petrol demand is expected to decline, transport will become increasingly electrified, the composition of liquid fuel demand will change, and domestic production of low carbon fuels may become more important. Decisions about support for refining, storage and other long-lived assets should reflect that changing system.

Existing refineries may form part of the strongest response because they bring established infrastructure, skilled workforces, approvals, supply chains and domestic market connections. Public support should therefore be tied to the security and productive capability those assets can provide over the life of the investment, including their ability to adapt economically as the domestic fuel mix changes.

Where Government provides support beyond ordinary market conditions to retain refining capability, the arrangement should define the public capability being purchased and the obligations attached to it. Support should be transparent, bounded and matched to the identified security or productive capability requirement, with reciprocal commitments on continued operation, necessary investment and adaptation where economically viable as the fuel mix changes. Where Government assumes material commercial risk, the arrangement should also provide an appropriate mechanism for sharing upside.

Future fuel security may also depend on new domestic LCLF production, strategic storage, diversified import sources and infrastructure needed for emerging fuels. Government should identify the capability Australia is seeking to retain or establish and then assess the combination of existing and new assets that can provide it most effectively.

This approach is consistent with earlier Australian fuel security work. The 2019 Liquid Fuel Security Review recognised biofuels and hydrogen as potential contributors to future fuel security and identified diversification and domestic production capability as relevant considerations.¹⁰ The final review also recognised value in retaining domestic refining capacity and/or domestic liquid fuel production.¹¹ The current transition makes it important to update that analysis against the technologies, demand patterns and production options Australia now expects to develop.

⁹ Australian Government (2026) '[Building Australia's fuel security with strategic fuel reserves and low carbon liquid fuels](#)', joint media release, 18 August.

¹⁰ Australian Government, Department of the Environment and Energy (2019) '[Liquid Fuel Security Review: Interim Report](#)', April, pp. 22, 32 and 60.

¹¹ Australian Government, Department of Industry, Science, Energy and Resources (2020) '[Liquid Fuel Security Review: Final Report](#)', October, pp. 14-15.

The common user infrastructure challenge discussed in section 3.4 also applies to fuel security. Government is prepared to invest in storage and stockholding where the market alone would not provide the level of resilience considered necessary for Australia. A similar assessment should apply where infrastructure gaps prevent future fuel and industrial capability from developing.

Emerging fuel projects can also face significant project-on-project risk where production depends on electricity, storage, pipelines, ports, customers and other parts of the system becoming available at the same time. A credible project may therefore fail to reach investment because another necessary part of the wider system cannot yet proceed independently.

Where Government expects emerging fuels to contribute materially to Australia's future energy and industrial system, it should consider whether coordinated or shared infrastructure investment can resolve those dependencies.

Recommendation 6: Plan fuel security around the capability Australia will need over the life of the investments now being supported.

In implementing the Australian Fuel Security Reserve, additional stockholding requirements and any continuing support for refining and storage, the Australian Government should plan for the fuel system Australia is expected to need over the life of those investments. This should include the changing role of existing refining and storage assets, domestic production of low carbon fuels, diversified import supply and the infrastructure required for emerging fuels.

The objective should be to strengthen resilience through the transition while avoiding public investment that unnecessarily locks Australia into the current fuel mix. Existing assets should be supported where they continue to provide valuable security capability and can adapt economically as demand changes. At the same time, Government should identify and address infrastructure or investment gaps that would prevent future domestic fuel and industrial capability from developing.

The fertiliser example discussed above has a further relevance to fuel security. Technical grade urea is used to produce AdBlue, which is required by many modern diesel trucks, buses, mining vehicles and agricultural machines. Urea supply disruption can therefore affect agricultural production and the operation of diesel dependent freight and equipment at the same time.

This illustrates how a vulnerability in one industrial input can flow across several essential activities. It also shows why resilience policy should look beyond the immediate product being secured and consider the wider systems that depend on it.

Government should assess whether similar resilience concerns apply to other products. Relevant considerations should include the risk and consequences of disruption, whether the product can readily be imported or substituted, and whether domestic production, diversified supply or strategic stocks would materially improve resilience. This is broadly consistent with the approach previously used by the Productivity Commission to assess vulnerable supply chains.¹²

¹² Productivity Commission (2021) [Vulnerable Supply Chains](#), Study Report, July.

AIDC recommends that this approach inform decisions about fuel security and closely connected critical inputs. The appropriate response will depend on the nature of the vulnerability and may involve domestic production, diversified supply, strategic stocks or a combination of measures.

Recommendation 7: Apply a wider resilience test to fuel security and closely connected critical industrial inputs.

In implementing the Fuel Security Strategy and considering future resilience measures, the Australian Government should examine vulnerabilities that could disrupt fuel supply or the essential activities that depend on it. This should include critical industrial inputs where their interruption could constrain freight, agriculture, mining, manufacturing or other essential functions. We recommend fertiliser supply, including urea, as a priority for further government action to support Australian resilience and sovereign capability.

The fuel security package should also be assessed cumulatively. Additional stockholding obligations, storage investment, refinery support and the LCLF demand mechanism can affect the same fuel and industrial value chains. Government should publish the combined expected fiscal and market cost, identify how policy-induced costs are likely to be passed through and test whether particular industrial or transport users face material exposure before they have a practical alternative. The cost pass-through principles in Section 5.5 should apply to the combined package as well as the LCLF mechanism.

5. The LCLF demand mechanism should incentivise lifecycle emissions performance from commencement

AIDC supports a strong demand signal for LCLFs. The demand requirement must be capable of creating sufficient market certainty for investment from the start. Its calibration should be informed by the scale and timing of credible production that the policy could bring forward, expected demand from end uses for which liquid fuels remain a credible transition or enduring pathway, the likely contribution of imports, and the Australian production capability Government intends the policy package to establish. Government should test alternative volume trajectories against plausible supply, investment and end-use scenarios and publish the assumptions underpinning the selected trajectory.

A successful policy will generate real investment. Projects will be financed and built, feedstocks contracted, infrastructure developed and customer relationships established. Those decisions will help determine the structure of the Australian industry well beyond the first years of the mechanism.

The selected trajectory should create a market large and durable enough to support the investment the policy is intended to induce, with sufficient visibility beyond 2035 for long-lived production and infrastructure investments. Periodic review can allow the trajectory to respond to material changes in technology, supply and end use demand without making the initial market signal contingent on Government predicting those developments perfectly.

Other compliance settings should preserve that market formation function. A supplier level obligation is a sensible default, with voluntary opt-in for major users where liability transfers cleanly and duplicate compliance is avoided. Credit trading can provide useful flexibility and value for supply exceeding minimum requirements. During the initial market formation phase, banking should not allow a surplus to accumulate that materially weakens annual physical demand. Any buy-out mechanism should operate as a genuine cost-containment backstop and should not become a routine cheaper alternative to procuring qualifying supply.

AIDC does not propose a specific banking period, quantitative limit or buy-out price. Those settings should be calibrated to preserve the physical demand signal while avoiding unnecessary compliance-cost volatility.

5.1 Carbon intensity should matter from the beginning

The volume trajectory and lifecycle carbon intensity perform different functions. The demand requirement determines the scale of the market Government is creating. Lifecycle carbon intensity determines what that market rewards. Both should operate from commencement.

Under the proposed Phase 1 approach, qualifying LCLFs would principally compete to meet a volume requirement. This creates a strong incentive to supply the lowest cost fuel that satisfies the eligibility requirements. The lowest cost qualifying fuel will not necessarily have the lowest lifecycle carbon intensity.

Phase 1 is also the period in which Government is seeking to establish the industry. If the mechanism successfully creates investment between 2029 and 2035, the production pathways developed during those years will shape the market that subsequently moves into Phase 2.

AIDC therefore recommends that lifecycle carbon intensity influence compliance value from commencement. A volumetric requirement can still provide sufficient protected demand to establish an LCLF market, while greater compliance value for fuels delivering greater verified lifecycle emissions reductions ensures that the market also rewards the emissions performance Government wants to encourage over time.

Lifecycle carbon intensity reporting is already proposed from commencement, and the expanding Product Guarantee of Origin framework should provide the principal basis for certification and lifecycle emissions information, avoiding duplication through parallel certification systems. The issue is therefore how that information affects the value created by the demand mechanism from its earliest years.

AIDC supports a minimum lifecycle carbon intensity threshold during the market formation phase. The Government's proposed range of approximately 40-70 per cent below the relevant fossil fuel baseline provides an appropriate range for further testing, but the final threshold should be informed by the emissions outcomes and production pathways it would admit or exclude. It should be high enough to prevent fuels delivering only marginal lifecycle emissions reductions from qualifying, without being calibrated so narrowly that credible emerging pathways are excluded before their potential emissions performance, scalability and role in the transition can be properly assessed.

The threshold should operate as an eligibility floor, not as the measure of performance once a fuel qualifies. Lifecycle carbon intensity should continue to affect compliance value above that floor, so that fuels delivering greater verified emissions reductions receive greater value from commencement. Eligibility should also remain subject to robust lifecycle accounting, sustainability requirements, certification and traceability applied consistently to domestic and imported fuels.

Carbon intensity weighting also allows policy to respond to differences between production pathways. Commercial maturity is not a proxy for long term emissions value. Emerging pathways may initially be more expensive while delivering substantially lower lifecycle emissions, and the demand mechanism should recognise that performance rather than rewarding all qualifying volumes in the same way.

Recommendation 8: Apply lifecycle carbon intensity to the LCLF demand mechanism from commencement.

The Australian Government should design the LCLF demand mechanism so that verified lifecycle emissions performance affects compliance value from the beginning of the scheme. Fuels delivering greater lifecycle emissions reductions should receive greater value within the mechanism, supported by robust measurement, certification and accounting.

This is particularly important during the period in which the Australian industry is being established. Investment made between 2029 and 2035 will shape production capacity, infrastructure, feedstock demand and customer relationships for many years. The mechanism should therefore reward the emissions performance Government ultimately wants the market to deliver from the point at which those investment decisions are being made.

5.2 Aviation shows why market formation sometimes requires specific treatment

The proposed separate jet fuel requirement from commencement recognises that aviation has a distinct transition challenge. Aviation is expected to remain heavily dependent on liquid fuels for longer than many other transport applications, while SAF may struggle to compete for supply if a general LCLF requirement can be satisfied through cheaper fuels serving other markets.

AIDC supports the principle behind this treatment. Where Government has strong evidence that an important end use has limited alternatives and requires a particular market to develop, specific market formation measures can be justified. The same principle should be applied carefully elsewhere, taking account of the alternative technologies available to each end use.

International policy is already creating material demand signals for lower emissions aviation and maritime fuels. ReFuelEU Aviation¹³ requires increasing shares of sustainable aviation fuel at EU airports and includes a separate requirement for synthetic aviation fuels, while FuelEU Maritime progressively reduces the lifecycle greenhouse gas intensity of energy used by ships calling at European ports.¹⁴ The IMO is also continuing work on its proposed global net zero framework for international shipping.¹⁵ These measures do not determine which fuel pathway will ultimately prevail, but they demonstrate that future aviation and maritime fuel markets will increasingly be shaped by policy as well as technology and cost. Australian market, production and infrastructure policy should take those emerging international demand signals into account.

Recommendation 9: Retain specific treatment for aviation within the LCLF demand mechanism, including the separate jet fuel requirement from commencement.

The Australian Government should retain the proposed separate treatment for jet fuel in recognition of aviation's limited near and medium-term alternatives to liquid fuels and the need to establish a viable SAF market alongside other LCLF markets. The design should provide sufficient demand certainty for SAF production and associated supply chains to develop without requiring SAF to compete solely against lower cost fuels serving end uses with a wider range of alternatives.

Similar treatment may be appropriate for other applications where Government can demonstrate that alternatives are materially constrained and a distinct market is required to bring forward production. Any such treatment should be based on the characteristics of the end use and the transition pathway Government is seeking to establish.

¹³ European Commission (n.d.) '[ReFuelEU aviation](#)', accessed 24 August 2026.

¹⁴ European Commission (n.d.) '[Decarbonising maritime transport – FuelEU Maritime](#)', accessed 24 August 2026.

¹⁵ International Maritime Organization (2026) '[MEPC 84th session](#)', meeting summary.

5.3 The mechanism should remain open to direct displacement of liquid fuels

The LCLF consultation paper also contemplates future consideration of crediting activities that directly displace fossil liquid fuel use, including electrification and hydrogen-based technologies. AIDC supports retaining this option.

Where an industrial or transport user can reduce fossil liquid fuel use more effectively through direct electrification or renewable hydrogen, policy should not create an incentive to retain liquid fuel consumption solely because an LCLF market has been established. This is particularly relevant when major equipment or fleets are replaced and the user has access to technologies that were not available when the existing asset was purchased.

Any future crediting of direct fuel displacement should be based on robust measurement of actual fossil fuel displacement and emissions reduction, avoid double counting with other policy mechanisms and preserve the investment signal required to establish LCLF supply. Used carefully, this could help direct available LCLF towards applications with fewer practical alternatives while allowing other users to adopt stronger alternatives as they become commercially available.

Recommendation 10: Retain the option for the LCLF mechanism to recognise direct displacement of fossil liquid fuels through electrification and renewable hydrogen.

As the LCLF mechanism develops, the Australian Government should retain the ability to recognise investments that directly and verifiably displace fossil liquid fuel use where electrification, renewable hydrogen or another technology provides the stronger emissions and industrial pathway for the user.

Any future crediting should be based on measured fossil fuel displacement and verified emissions reduction, avoid double counting with other policy mechanisms and preserve sufficient demand to support investment in LCLF production. The purpose should be to direct low carbon liquid fuels towards applications in which they provide enduring value while allowing users with viable alternatives to move to those technologies as assets and equipment are replaced.

5.4 An Australian market does not guarantee Australian production

The proposed demand mechanism is intended to support the development of an Australian LCLF industry, alongside the \$1.1 billion Cleaner Fuels Program. But creating demand for LCLFs does not by itself determine where those fuels will be produced.

Government has already made domestic production a clear objective of the policy package, but it is not yet clear whether the combined demand and production measures are sufficient to deliver it. If imported fuels can satisfy a significant share of the obligation more competitively, the mechanism could increase LCLF use without generating the scale of Australian production Government is seeking.

Government should therefore be explicit about the domestic industry it expects the policy package to create. It should publish its assumptions for Australian production through 2030 and 2035, including the share of demand Government expects to be met by Australian production, and test whether the Cleaner Fuels Program and other production measures are sufficient to deliver that outcome.

Where credible Australian production remains unable to compete with imports while the industry is being established, Government should identify the barrier preventing investment and determine whether the wider policy package needs to address it.

Imported fuels will remain part of the Australian market. The policy package should nevertheless be judged against the domestic production capability the Government has explicitly said it wants to establish. Domestic and imported fuels used for compliance should be subject to equivalent lifecycle emissions, sustainability, certification and traceability requirements.

Recommendation 11: Define the Australian production outcome the LCLF policy package is expected to deliver.

In finalising the LCLF demand mechanism and Cleaner Fuels Program, the Australian Government should publish its assumptions for Australian production through 2030 and 2035, including the share of demand it expects to be met by Australian production, and test whether the combined policy package is sufficient to deliver that outcome.

5.5 Cost pass through should be understood and managed

A mandated demand mechanism will increase the cost of some fuels relative to their conventional alternatives, particularly while low carbon production remains at an early stage of scale. That additional cost is part of the intervention required to create demand, reduce emissions and establish domestic production capability.

Government should understand how those costs move through the market and who ultimately pays them. Depending on the design of the obligation, costs may be absorbed by fuel suppliers, passed through to transport and industrial users, or flow further through supply chains to customers and consumers.

Any arrangement allowing large fuel users to assume obligations directly should be genuinely voluntary, transfer liability cleanly from the fuel supplier and avoid duplicate reporting or compliance obligations.

This is particularly important where industrial or transport users have substantial fuel requirements, limited practical alternatives in the near term and exposure to international competition. Passing a large share of the transition cost through to those users could weaken their competitiveness and their capacity to invest in the wider decarbonisation required of them.

AIDC therefore recommends that the final design model expected cost pass-through and identify where material impacts arise. Where those impacts create a material competitiveness or transition problem for foundational industrial capability or another activity with a demonstrated public interest or resilience case, Government should consider complementary measures that preserve the demand and emissions signal.

Recommendation 12: Understand and manage how the costs of the LCLF demand mechanism will move through industrial, transport and fuel value chains.

In finalising the LCLF demand mechanism, the Australian Government should model how compliance costs are likely to be passed through by fuel suppliers and where those costs ultimately land across transport, mining, industrial production and other major fuel users. The analysis should identify users with limited capacity to change fuel use in the near term, limited ability to recover higher costs from customers, or significant exposure to international competition. It should also account for interactions with Safeguard obligations and other fiscal settings affecting the same fuel use.

Where the mechanism would impose material or disproportionate costs on foundational industrial capability or other Australian activities with a demonstrated public interest or resilience case, Government should consider complementary measures that address the identified competitiveness or transition problem while preserving the emissions reduction and demand signal created by the LCLF policy.

6. Procurement and strategic reserves can create anchor demand

Government procurement can create more value for an emerging industry than its share of total demand might suggest. A credible Government customer can give an early project contracted demand, demonstrate operational use, establish standards and logistics, and provide greater confidence to lenders and other customers.

Defence is particularly relevant because it has already recognised a role for its own demand in the energy transition. The Defence Future Energy Strategy identifies renewable diesel, sustainable aviation fuel, hydrogen and electrification as future energy options for Defence.¹⁶ It gives greater priority to renewable diesel, SAF and electrification in the nearer term, while identifying hydrogen as a longer term option for selected applications. Defence also makes clear that any transition must maintain warfighting capability, range, survivability and interoperability with allies.

The department has gone further in its Operational Energy Transition program. For the period from 2025 to 2030, Defence intends to increase the use of LCLF while providing a clear demand signal to support domestic production capability. It is already trialling and adopting SAF and renewable diesel across aircraft, vessels, vehicles and remote generators.¹⁷ AIDC supports this approach and considers the same principle could be applied more widely where emerging energy technologies can meet a genuine Defence requirement.

Defence can also create useful demand without changing fuels across an entire service or platform fleet at once. Demand can be created at a particular base, facility, training area or region, including stationary and remote applications where energy resilience and dependence on transported diesel are already material considerations.

Defence's longer-term interest in hydrogen also illustrates the need to connect capability planning with market development. If Government expects a fuel or energy technology to form part of future Defence capability, it should consider how the necessary production, infrastructure and supply chain will develop before that capability is required. In stationary and remote applications, procurement and demonstration can also help establish which technologies are suited to particular requirements while creating early demand for supply chains that may later serve wider Defence, industrial or regional needs.

¹⁶ Department of Defence (2024) [Defence Future Energy Strategy](#), pp. 6-7. The Strategy identifies renewable diesel, SAF, hydrogen and electrification as future energy options; treats hydrogen as a longer-term option for selected applications; and emphasises capability, interoperability, range, survivability and infrastructure requirements.

¹⁷ Department of Defence (2026) [Operational energy transition](#), current as August 2026. Phase 1, covering 2025–2030, states that Defence will scale adoption of low carbon liquid fuels while providing a clear demand signal to support domestic production capability. The same source records demonstrations and uptake of SAF and renewable diesel across aircraft, vessels and remote generators.

A regional approach may create greater value than considering each customer separately. In the Pilbara, mining, ammonia and urea production, prospective green iron and maritime fuels may draw on overlapping electricity, hydrogen, ammonia, storage and port infrastructure. Pilbara Ports is already developing a clean fuel bunkering hub incorporating ammonia bunkering, demand aggregation and infrastructure planning.¹⁸ Where Government has relevant demand in a region, an early contract need not underpin an entire project; it can contribute to initial utilisation while larger industrial and commercial markets develop.

Commonwealth procurement rules already allow a broader assessment than upfront price alone. Value for money can include fitness for purpose, innovation and adaptability, environmental sustainability, whole of life costs and, for relevant larger procurements, economic benefit to the Australian economy.¹⁹ Procurement would continue to operate within applicable non-discrimination and trade obligations. Defence does have particular requirements for fuel specifications, capability and interoperability. The opportunity is therefore to define the Defence requirement broadly enough to recognise resilience, environmental performance, adaptability and wider economic benefit where those factors are genuinely relevant, while continuing to meet value for money and procurement obligations.

The Australian Fuel Security Reserve may provide another opportunity for Government demand to support domestic production. The proposed Reserve will hold around one billion litres of diesel and jet fuel, alongside increased industry stockholding requirements.²⁰ Where operational requirements, fuel specifications and stock management allow, procurement for the Reserve should consider whether Australian produced LCLF can contribute to both the immediate security requirement and the development of domestic production capability.

Recommendation 13: Use Government procurement and strategic reserves as anchor demand where this can meet a genuine public requirement and help establish useful Australian production capability.

The Australian Government should use its own fuel demand strategically where procurement can satisfy an existing public requirement while also helping credible Australian production reach commercial scale. This should include Defence and other Government fuel purchasing where operational requirements allow, and consideration of Australian-produced LCLF for the Australian Fuel Security Reserve where fuel specifications, storage characteristics and stock management requirements can be met.

¹⁸ Pilbara Ports (2025) [Pilbara Clean Fuel Bunkering Hub factsheet](#). The work includes ammonia bunkering, infrastructure planning, demand aggregation, supply assessment and incentive structures. Pilbara Ports completed a ship-to-ship ammonia transfer trial at Dampier in September 2024 and is developing further bunkering capability.

¹⁹ Department of Defence (2026) [Procurement policies and legislation](#); Department of Finance (2025) [Commonwealth Procurement Rules](#), 17 November, paras 4.1–4.8.

²⁰ Australian Government (2026) [Building Australia's fuel security with strategic fuel reserves and low carbon liquid fuels](#), joint media release, 18 August. The Government has committed \$3.2 billion for a government owned reserve of one billion litres of diesel and jet fuel and proposes an additional ten days of mandatory industry stocks for diesel, petrol and jet fuel.

Procurement should be designed to provide commercially useful demand and should be coordinated with infrastructure and market development where an early Government customer can help establish initial utilisation. Where common user infrastructure will ultimately serve several users, Government demand may also help reduce the early utilisation risk that would otherwise prevent the first production or infrastructure investment from proceeding.