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Securing Australia's Cleaner Fuels Industry: Consultation Paper

ACAPMA welcomes the opportunity to make this submission to the DCCEEW Consultation Paper Securing Australia's Cleaner Fuels Industry.

Given that the scope of ACAPMA's activity does not incorporate fuel production, the Association is not in a position to provide meaningful comment in respect of many of the questions posed in the discussion paper – and will instead defer to our sister organisation the Australian Institute of Petroleum (AIP).

ACAPMA is very disappointed with the limited time given to stakeholders to provide meaningful feedback on this Consultation Paper. ACAPMA seeks the views of its members when making submissions to government, and the compressed consultation timelines limits the ability of members to meaningfully participate in processes that could have significant long term impacts on their businesses and their industry.

1. About ACAPMA

The Australasian Convenience and Petroleum Marketers Association (ACAPMA) is the national peak body representing the interests of the petroleum distribution, wholesaling and the petrol-convenience retail industry. These two industry sectors generated annual revenues of around $102B and employed an estimated 51,500 Australians, working in around 4500 businesses.

ACAPMA is first and foremost an employer organisation that is formally recognised under Australian law as the industrial advocate for fuel marketing and fuel distribution businesses. First established in 1976, the Association started operations as the Australian Petroleum Agents and Distributors Association (APADA) and subsequently changed its name to

ACAPMA in 2007. The name change was accompanied by a change in the Association's Constitution to incorporate national representation of fuel retailers.

Today, the Association directly represents 95% of fuel distributors/wholesalers in the country and directly and indirectly (via franchisees and distributor-owned retailers) around 5700 of the 8027 service stations (i.e. 71%) operating in Australia.

The scope of ACAPMA's membership extends from the 'refinery gate' through to the forecourt of Australia's national network of service stations and petrol convenience outlets – including fuel importation, fuel wholesalers, fuel distributors, fuel retailers, petroleum equipment suppliers, and petroleum service providers.

ACAPMA's member businesses range from Australian-owned subsidiaries of international companies to large Australian-owned businesses, to independently owned mid-cap Australian companies, and small single retail site family-owned businesses.

Given the diversity of our membership base, ACAPMA strives to assemble an aggregate whole-of-industry perspective on key public policy and market regulation - with a view to providing policymakers and regulators with meaningful industry insights that are directly relevant to issues under consideration.

Given the wide variance in the market propositions (and market presence) of individual market participants, ACAPMA's aggregate whole-of-industry perspective should not be taken as necessarily being wholly representative of the position of any individual fuel retailer.

It is therefore possible that one or more of ACAPMA's members may have an individual enterprise position that varies markedly from the one presented in this paper.

2. Guiding Principles

While Australia's fuel distribution & wholesale businesses and Australia's fuel retail businesses are not directly invested in the manufacture of transport fuels (neither conventional nor low carbon liquid fuels), the industry recognises that it has an active role to play in supporting an orderly transition to low carbon mobility.
Achievement of this orderly transition will require all stakeholders to work cooperatively on a comprehensive transition plan without creating undue economic and social harm. At a practical level, this means ensuring that any transition is advanced from sound engineering and economic principles.

ACAPMA's response to Securing Australia's Cleaner Fuels Industry is informed by elements of the Association's Public Policy Framework:

Low carbon policy and regulation must focus on performance

ACAPMA notes that there are numerous examples (both national and international) of governments imposing mandates of alternative fuels as a means of achieving environmental goals, only to repeal these measures on the grounds of the creation of significant adverse economic and social consequences. National and International experience with the introduction of mandates of first-generation biofuels in Europe, North America, and Australia at the turn of the century is a case in point.

ACAPMA therefore opposes mandates that prohibit specific mobility technologies and/or limit the constructive competitive tension that exists between competing low carbon mobility technologies (i.e. electric, hydrogen, and synthetic fuels)

Early investment in low carbon mobility infrastructure should be supported by public funding until such time as market demand supports wholesale private sector investment.

New investment in low carbon mobility infrastructure that is developed in advance of demand is typically uneconomic. It therefore follows that achievement of the public good associated with early provision of this infrastructure should be underpinned by proportionate investment in same by all Australian Governments.

Forced private sector investment ahead of demand for low carbon mobility will undoubtedly result in Australian fuel businesses being required to offset uneconomic investment costs by increasing the cost of conventional fuels for Australian businesses and households – an outcome that is considered economically unjust and socially inequitable.

Progress on low carbon mobility to support net zero should not come at the expense of Australia's national fuel security goals.

Australia's conventional fuel industry is critical to the national security of the country and will likely remain so until the majority of Australia's on-road and off-road vehicles transition to low carbon technologies and fuels.

Given the growing significance of geopolitical issues, government policy must balance required investment in low carbon mobility with the equally important requirement to continue investment in conventional fuel security. Such a balance requires due consideration of the scarcity of funding for new investment (in either conventional or future fuel infrastructure) and the likely reduced timeframes for realisation of a

commercial return from new investment in conventional fuel import, storage, transport, and retail infrastructure.

Development of the low carbon mobility market should ensure competition neutrality.

Mobility costs are a significant cost input to the Australian economy. Traditionally, successive Australian governments have sought to ensure that these costs remain reasonable and affordable by ensuring that there is a strong competitive tension in the Australian fuel wholesale and fuel retail markets. These efforts extend to the provision of special powers of oversight of the fuel retail industry by the ACCC, as determined by successive Federal Treasurer's over the past two decades.

It therefore follows that, as all Australian Governments seek to promote growth of the low carbon mobility market, the design of government policies and funding programmes avoid inadvertently ceding a concentration of market power to specific enterprises and/or organisations. This is particularly pertinent with respect to the awarding of government grants (i.e. taxpayer funds) for new low carbon mobility infrastructure.

3. Statement of overall position

ACAPMA supports actions taken by all Australian Governments in respect of promoting the early market adoption of low carbon transport fuels such as renewable diesel in the short term, and synthetic diesel in the medium to long term. The principal benefit of these initiatives is that they provide an opportunity to realise emissions reductions from the hard-to-abate diesel vehicles and diesel machinery sector by utilising existing fuel supply infrastructure and existing diesel vehicles and machinery.

However, this support is premised on the nature of incentives for their market adoption:

LCLFs represent a significant abatement opportunity in the short term. Development of early supply of low carbon renewable diesel for the Australian diesel market presents a tangible opportunity to deliver emissions reduction from the hard-to-abate road transport and heavy machinery industrial sectors (e.g. Mining, Agriculture, industry, and rail transport) – particularly given the forecast near zero availability of BEV and FCEV drivetrains for these applications (both on-road and off-road).

LCLF's must be distinguished from first-generation biofuels. The Association's support for low carbon liquid fuels – including renewable diesel - is premised on the firm understanding that these fuels deliver a significant reduction in emissions (as compared with equivalent conventional fuel operation) and that these fuels can

readily utilise existing national fuel transport, fuel storage and fuel retailing infrastructure. That is, they do not necessitate expensive adaptation or augmentation of national fuel supply infrastructure.

Within this context, first generation biofuels (e.g. ethanol-petrol blends) and biodiesel produced from agricultural feedstocks like Tallow are not considered to be low carbon liquid fuels given that the utilisation of high-volume blends of these fuels requires substantial modification of both national fuel supply infrastructure. Further, these fuels demonstrate negligible GHG emission benefits and have historically created sustainability issues (for example, the food vs fuel conundrum).

LCLF's must deliver significant GHG reductions relative to conventional fuels. Any new standard for low carbon fuels, including that for renewable diesel, should stipulate a minimum emission reduction threshold compared with the life cycle emissions of conventional fuels. Such fuels could reasonably be blended with conventional fuel initially to deliver a lesser emissions benefit, with a view to a progressive increase in blend concentrations over time.

The early market adoption of LCLFs should be incentivised in Australia. Recognising the current significant cost disadvantage of renewable diesel (150% of average diesel price) and synthetic diesel (250% of average diesel price), there will be a need to incentivise market adoption of these fuels via the simultaneous pursuit of Market Push policy and Market Pull policy mechanisms. Care should be taken with the design of Market Push (or Supply side) mechanisms to ensure that they do not distort market competition in the highly competitive national fuels market. Similarly, Market Pull (or Demand side) interventions should be targeted at the end-consumer directly – as opposed to a vicarious construct involving downstream fuel market participants (i.e. fuel wholesalers or fuel retailers).

Strategies to incentivise market adoption of SAF and renewable diesel fuels should recognise fundamental differences in market characteristics. ACAPMA notes that the national discussion about LCLFs has implied that the market development strategies for both sustainable aviation fuels and renewable diesel (on-road and off-road use) will likely be similar.

The characteristics of these two markets are dramatically different in terms of scale and market behaviours, so accordingly, ACAPMA believes that the strategies for the development of the markets for these two fuels will likely need to be differentiated.

Fuel mandates are problematic. They are not suited in situations where there is significant uncertainty surrounding the future demand-supply balance. Experience with legislated mandates, both in Australia and in overseas jurisdictions, reveals that

Mandates are inflexible and often produce unintended adverse consequences (for market participants and end-consumers alike) – particularly where the future supply-demand balance in unknown. In cases where the mandate dictates market utilisation of a fuel volume that cannot be supported by supply, scarcity results and the new fuel attracts a higher cost premium than warranted by the incremental production cost. Similarly, a conservative mandate can result in discontinuous investment as demand lags supply (and consequent investment in new production capacity).

4. Design of demand side mechanisims

ACAPMA maintains that there is latent market demand for LCLFs, specifically renewable diesel.

This demand is evident in an increasing level of market inquiry being received by ACAPMA members from their wholesale customers. These customers include large entities that are liable under the Safeguard Mechanism (i.e. mining, construction, agricultural and industrial customers), and road freight businesses that support larger businesses in both categories.

The principal barrier is therefore not the absence of demand. Rather, the magnitude of the cost premium of LCLF (especially renewable diesel) is currently not deemed to be commercial - and considered to be well above the current (and short term future forecast) of Australian Carbon Credit Units (ACCUs).

It then follows that if the unit cost premium of adopting renewable diesel (up to $1.50 per litre) and renewable diesel blends could be negated, then real-world demand would manifest naturally at a level that would likely justify investment in domestic LCLF production facilities.

ACAPMA therefore believes that the greatest short term opportunity lies in the incentivisation of the market adoption of renewable diesel blends within the Road Freight Sector. This belief is predicated on the projected substantial growth of emissions from this sector and the absence of any viable alternative strategy for emissions reductions within this sector over the medium term.

Given that this sector is projected to consume 7.8 billion litres of diesel per year by 2030, a 12cpl premium for an R10 blend at this time would add around $0.94B to the cost of road freight in Australia – a cost that would ultimately be passed on to Australian households and businesses in the form of higher prices for goods and services.

It follows then, that there would appear to be significant whole-of-community benefit derived by subsidising the market adoption of a renewable diesel blend (e.g. R10) in the near term.

Such a subsidy could be delivered to road freight businesses by discounting the Road User Charge (RUC) levied on road freight enterprises that purchase R10 and R20 blends (i.e. 12cpl discount for R10 and 24cpl discount for R20 purchases)

Such a mechanism could utilise the existing indirect taxation mechanism for the RUC and could initially create a demand for over 780M litres of renewable diesel, much of which could be formalised via short term fuel supply contracts between fuel industry businesses and larger road freight businesses.

5. The opportunity for low carbon liquid fuels

Australia consumed 33.6 billion litres of diesel in 2025. Given that consumption of this fuel predominantly occurs in substantial industries with complex engine technologies, the delivery of significant emission reductions is unlikely to be achieved by the replacement of existing technology with low carbon drivetrains (e.g. BEV and Hydrogen FCEVs) in the short term - due to both the nature of the drive-cycles and the high cost of technology switching. As a result, key segments of the Australian Transport Sector (i.e. road freight, agriculture, mining, rail transport, coastal shipping and aviation) are generally deemed to be hard-to-abate sectors given the current impracticality of technology replacement.

Low carbon liquid fuels, especially diesel, present a very significant opportunity to lower emissions produced by hard-to-abate sectors given that they can be used by incumbent vehicle and engine technologies. These fuels also impose lower overall adjustment costs on the economy (when compared with BEV and FCEV technologies) as they do not require the development of new transport energy infrastructure and can readily utilise existing national fuel distribution and storage infrastructure.

Some forms of renewable diesel (i.e. Hydrotreated Vegetable Oil or HVO) have the potential to reduce emissions by up to 80% relative to conventional diesel consumption. If utilised on a blend basis (e.g. R20), the market adoption of this fuel provides the potential to significantly reduce emissions from diesel consumption.

Over the long term, synthetic diesel (i.e. produced from hydrogen feedstock using renewable energy) have the potential to reduce diesel emissions by up to 90%. However, the realisation of the LCLF opportunity will require successful navigation of several key challenges in terms of feedstock and production economics.
At present, renewable diesel comes at a cost premium of about $1.50 per litre (wholesale basis) while synthetic diesel is estimated to cost approximately 2.5 times the cost of conventional diesel. While these costs are expected to be lowered with scale over time, the quantum of the long-term reduction remains uncertain.

For Australia, this means that LCLFs represent a significant emerging opportunity to reduce transport sector emissions in Australia over the long term.

In the short term, the degree of market substitution of conventional fuels is likely to be defined by several key factors, including: (a) availability and affordability of suitable feedstocks, (b) near-term development of national bio-refinery production capacity, (c) the rate of near-term reduction of the emissions intensity of grid sourced electricity, and (d) the cost

competitiveness of domestically produced fuels when compared with international production.

6. Forecast production

ACAPMA is not able to provide comprehensive comment in respect to the options that could be utilised to support domestic low carbon liquid production but will simply make some observations.

Despite the optimistic picture painted by Deloitte for the CEFC, production of low carbon liquid fuels are limited, and the future pipeline of projects planned to be in operation by 2030 looks somewhat uncertain.

One project announced to be in operation was Sherdar Australia Biorefinery to be constructed on the East Coast projected to produce 600 million litres of renewable diesel. The project was first announced in 2021, made its last public statement in 2023, however as of September 2026 still has not even announced a preferred location.

The second project is being advanced by Future Energy Australia and involves the construction of a renewable diesel production facility in Western Australia. The project is forecast to produce around 18.8 million litres per year. The refinery was due for completion by the end of 2023, however according to the CEFC, the project is still at the feasibility stage.

A third project being advanced involves the reconfiguration of the BP Kwinana refinery in Western Australia. It was announced the project will produce SAF and HVO (renewable diesel) per year and was originally scheduled to be completed in mid to late 2026. However, according to the CEFC, the project is now ‘paused’.

7. Targets

Imported and domestic LCLFs should be treated equally – at least in the short term. While ACAPMA understands the Australian Government’s desire to incentivise domestic production of LCLFs under the banner of the Future Made in Australia Program, such an approach creates two substantial issues. First, it constrains the degree to which LCLFs could be used to lower emissions from conventional fuel consumption in the short term. Secondly, disproportionate financial incentives for producers potentially distorts competition in the Australian wholesale diesel market.

ACAPMA believes that the avoidance of these two downside risks is best achieved via the application of modest production incentives that are supported by meaningful demand side incentives for the adoption of low carbon liquid fuels.

The production of low carbon liquid fuels will likely either firstly, be more expensive than production in other international economies as Australian producers seek to utilise higher unit

cost sources of electricity generated by small scale renewables, or secondly, deliver lower emissions reduction by comparison with imported LCLF product.

ACAPMA therefore believes that the architecture of supply-side incentives provided by the Australian Government to support the growth of LCLF, will need to take account of the likely near-term higher cost of production of LCLF's that deliver an emissions benefit that is equivalent to that of internationally sourced product.

8. Obligation fuels

ACAPMA believes the obligation fuels should be limited to diesel and jet fuel that accounted for 70% of fuel sold in 2025. Petrol sales are gradually declining and emissions from this fleet are being addressed through the New Vehicle Emissions Standard and the uptake hybrid and electric vehicles.

9. Conclusion

ACAPMA supports initiatives of all Australian Governments in respect of promoting the early market adoption of LCLFs such as renewable diesel and SAF in the near term - and synthetic diesel in the medium to long term. This support is premised in the fact that LCLFs provide an opportunity to realise emissions reductions from the hard-to-abate diesel vehicles and diesel machinery sector by utilising existing fuel supply infrastructure and existing diesel vehicles and machinery.

ACAPMA believes that it is simply not possible to mandate a target at this stage (even if scheduled for some time in the future) given the significant uncertainty surrounding both short term supply volumes and overall supply economics, for what is essentially an immature global industry.

ACAPMA believes that a more pragmatic approach would involve the utilisation of a demand side taxation incentive focussed solely on adoption of a renewable diesel blend within the road freight sector. Such a mechanism could involve the application of a discount on existing fuel excise – specifically the RUC for road freight operators – to eliminate the cost premium associated with substitution of conventional diesel with a modest renewable diesel blend (i.e. R10 or R20).

Once a LCLF market is mature, the fuel excise could be transitioned in combination with a progressive increase in renewable diesel blends by utilising the national fuel quality standards mechanism.

ACAPMA appreciates the opportunity to provide comment to this important consultation. The Association looks forward to continuing to work with the Australian Government and all external stakeholders, towards a meaningful uptake of the LCLF opportunity in Australia.

Should you require clarification of any of the material provided in this report in the meantime, please contact me on 0419 133 139 or by email via rowan@acapma.com.au.

Yours sincerely

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