



# Designing Australia's low carbon liquid fuels industry

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To meet the International Civil Aviation Organization's **goal** to decarbonise the industry by 2050, governments will need enact policy to stimulate both supply and demand for low carbon liquid fuels (**LCLF**). Demand policies include fuel or emissions reduction mandates, fuel levies (such as in **Singapore**) and low carbon fuel standards. Supply policies include research and development (grant) funding, production incentives and contract for difference (**CfD**) schemes.

Building on its recent **announcement** of a record \$1.1 billion investment in the LCLF industry, the Australian Government has released a **Policy Design and Engagement Paper** for its Cleaner Fuels Program. The Australian Government is seeking submissions from industry on the architecture of the Program, which aims to stimulate the supply of LCLFs by providing production-linked incentives over ten years and target support towards LCLF projects that are advanced in development.

Written submissions are due on **19 December 2025** with the Program to be launched and applications open in mid-2026. For businesses across aviation, freight, agriculture, resources and energy, the consultation period provides an opportunity to contribute to the regulatory and commercial framework that will support the LCLF industry over the coming decade.

**Drawing on our experience**, we have identified five key themes in the Paper for consideration by prospective applicants, investors and offtakers.

## 1. Defining “eligible fuels”: fuel-agnostic v strategic prioritisation

The Paper considers two broad approaches. The first would treat sustainable aviation fuel (**SAF**), renewable diesel (**RD**) and other emerging biofuels on an equal footing, with market forces determining which pathways succeed. The second would prioritise fuels essential for hard-to-abate sectors – notably aviation – or de-prioritise those with clearer electrification alternatives.

From a legal standpoint, certainty around eligibility is critical. Applicants need confidence that their chosen pathway will not later be excluded or disadvantaged. Applicants should provide evidence of demand, emissions abatement, and economic impacts for their preferred fuel type. Where relevant, submissions may reference Australia’s broader commitments, such as the International Civil Aviation Organisation’s net-zero 2050 target, to demonstrate alignment with national objectives.

## 2. Structuring production support: fixed credits or contracts-for-difference?

The Program intends to use a competitive process to ensure value is delivered with the total available funding and enable benchmarking of the amount of funding needed to enable a facility to progress to production. The Program prefers production-linked incentives to upfront grant payments, reducing the risk to taxpayers where producers receive payment without delivering product. Two competing concepts have been presented:

- A fixed production credit (c \$/L) determined competitively, payable per litre produced. This could be similar to the current fuel excise rebate available to fossil fuel users; or
- A CfD scheme where Government tops up the gap between an competitively determined “strike price” and a reference LCLF market price, with symmetrical claw-back if prices rise. A CfD scheme could benefit less advanced LCLF projects or nascent technologies to bridge the higher cost of production to the SAF market price (after the introduction of a production credit), and to enable such other technologies to mature and become more cost effective, thereby diversifying Australia’s production of SAFs.

## 3. Carbon intensity thresholds and sustainability safeguards

There is a general expectation that only fuels achieving a specified lifecycle emissions reduction threshold compared with fossil equivalents will qualify for the Program, aligning Australia with EU and US thresholds. Whilst the Paper calls for consultation on the implementation of a threshold, having regard to previous consultation it could be in the vicinity of 50%, which may exclude certain domestic feedstocks, such as canola, in the short term.

Beyond carbon, the Paper canvasses broader sustainability criteria – land-use change, biodiversity, water, food security and labour standards – and alignment with certification schemes under the evolving **Guarantee of Origin (GO)** scheme which will include LCLFs from 2026. Early engagement with certifiers and the development of robust traceability systems will be important. Applicants and those involved in the supply chain may wish to separately review their supply contracts to ensure that sustainability obligations and data-sharing rights required for GO reporting are addressed.

## 4. Community benefits

The development of a LCLFs industry presents many economic opportunities to Australian communities, including by securing sovereign fuel supply resulting in lower fuel costs, and creating jobs in rural and regional areas where crops such as sugar cane and canola (used in the hydrotreated esters and fatty acids (HEFA) SAF production method) are plentiful.

The Paper asks whether production supported by the Program should be restricted to domestic use. For projects seeking economies of scale through regional exports, including to SAF markets in Asia, this is a relevant consideration. Evidence that export flexibility could enhance domestic supply security may be persuasive.

Additionally, as the Cleaner Fuels Program is administered under the Future Made in Australia Act 2024 (Cth), applicants must demonstrate compliance with six community benefit principles, including promoting safe and secure jobs, supporting First Nations participation, and demonstrating transparency and compliance in relation to the management of tax affairs. In practice, this means proponents could provide social procurement plans, local workforce strategies, and mechanisms for First Nations equity or benefit-sharing.

### 5. A complex policy intersection

The Program will not operate in isolation. Prospective applicants should map interactions with:

- The **Safeguard Mechanism**, the Australian Government's policy for reducing emissions at large industrial facilities;
- The **New Vehicle Efficiency Standard**, influencing demand for renewable diesel in heavy transport;
- State planning and environmental regulations; and
- Finance pathways via the **National Reconstruction Fund, CEFC or Northern Australia Infrastructure Facility**.

Each layer involves its own compliance obligations, information requirements and reporting timelines. Coordinated legal advice across environmental, trade, tax, and project finance can assist in managing these requirements efficiently.

### Looking ahead – aligning policy ambition with market reality

Australia’s resource endowment – from abundant biomass residues to renewable electricity for e-fuels – positions it well to capture a share of the burgeoning global sustainable fuels market. Projects that are ready to move to final investment decision will likely benefit most from the Program.

For Government, the policy challenge is to design a scheme that supports projects without creating ongoing subsidy dependence or favouring established technologies over innovation. Transparent, bankable, and adaptable incentives will be important. Alignment with international sustainability standards may assist Australian fuel in accessing premium markets overseas, while community benefit obligations can support social licence domestically.

For industry, early engagement, collaboration, and preparation to demonstrate technological capability, carbon integrity, community value, and financial discipline will be key to success in the Program and future commercial benefit from participating in the LCLF industry. The upcoming consultation period provides applicants with a critical opportunity to contribute to the development of the sector’s regulatory framework.

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