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Department of Climate Change, Energy, the Environment and Water
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Securing Australia's Cleaner Fuels Industry

The Australian Financial Markets Association (AFMA) is responding to the Department of Climate Change, Energy, the Environment and Water's (DCCEEW) Securing Australia's Cleaner Fuels Industry Consultation paper on a demand mechanism.

AFMA is the leading industry association representing Australia's financial markets - including the capital, credit, derivatives, foreign exchange, energy and other specialist markets including carbon and other environmental products. We have more than 140 members, from Australian and international banks, leading brokers, securities companies, and government treasury corporations to fund managers, energy firms, and industry service providers. AFMA plays a key role in maintaining market standard documentation to facilitate transactions for a range of environmental products, including renewable electricity and gas.

Key Points

- **AFMA supports incentivising LCLFs and establishing a supporting credit market**
- **Existing renewable energy schemes can provide guidance about how to design the scheme**

AFMA supports policies aimed at incentivising the growth of Low Carbon Liquid Fuels (LCLFs) to decarbonise sectors and support hard to abate facilities. We believe that a markets-based approach is the optimal framework to support this and that the ability to generate and trade credits will play an important role incentivising the growth of LCLFs.

AFMA has substantial experience with other successful renewable energy schemes which we think can provide a foundation for a LCLF scheme. In particular, we think DCCEEW should look to the Commonwealth Renewable Energy Target (RET) and NSW's Renewable Fuels Scheme (RFS) as market-based designs that use credit markets and flexible compliance arrangements to promote the development of green sources of energy.

1. Credit market

One of the key design elements that can be attributed to the success of the RET and other state-based schemes is the ability to buy and sell credits. We strongly support the inclusion of credit trading as it supports cost efficient and flexible compliance and, in particular, it has been imperative in supporting hard to abate sectors and played a demonstrable role in reducing emissions across the economy more broadly. Credit markets play an important role in any new market as they send positive investment signals, provide fungibility and can allow different fuels to compete and lead to the most efficient, economic, and long-term viable fuel for sectors in need of lower emissions alternatives. Strong demand signals from the market can help grow the industry and create greater investment certainty.

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We note the intent to introduce a phased approach and recommend avoiding restrictions on the ability to generate and use of credits, where possible to support meeting compliance obligations which will be important in the early stages where generation is lower. Credit banking aids flexible compliance and generally stimulates market activity, we note banking was introduced into the Safeguard Mechanism as a result of the 2023 reforms and think it would be appropriate for any LCLF scheme. We support the inclusion of a buy-out price/ cost-containment measure as an important feature, particularly in the early stages of the scheme.

1. Alignment and interaction with other schemes

We believe emissions reductions resulting from the use of LCLFs should be recognised under the Safeguard Mechanism and we would encourage DCCEEW to consider this as part of the ongoing 2026/27 review.

Where practicable, DCCEEW should seek to adopt certification, verification and administrative methodologies consistent with the GO scheme for LCLF credits to minimise complexity and burden, but this should be done without extending scheme coverage to electricity, gas or other energy products. These products should remain regulated through their existing frameworks. The LCLF scheme should remain a standalone, sector specific mechanism operating independently of electricity and gas markets, with LCLFs ultimately focused on hard to abate sectors where electrification is impractical.

Robust emissions sustainability criteria will equally be important to build trust and demand in LCLF products. The GO scheme provides a useful framework for this, to show that products are leading to real sustainability outcomes. In particular, consideration will need to be given to impacts to food production systems, land use and local communities to maintain social licence.

Additionally, particularly with high cost being a key barrier to LCLF uptake, DCCEEW should work symbiotically with ARENA on this issue as they administer the Cleaner Fuels Program, as well as administrators of other Commonwealth financial support measures for LCLFs identified in Table 3. How the scheme will function alongside the NSW RFS and QLD biofuels mandate, will require additional consideration.

With regard to hydrogen specifically, we note the Energy and Climate Change Ministerial Council are currently developing a National Renewable Gas Policy that covers a range of fuels including hydrogen. To avoid duplicative initiatives, overlap and provide a coherent framework to industry, AFMA encourages DCCEEW and its peer agencies to more holistically and coherently consider the appropriate policy settings for hydrogen in line with realistic demand.

2. Targets

AFMA agrees that a demand-side target would be optimal to provide enduring market signals. However, it's imperative that the target reflects realistic supply opportunities and availability, and that obligation trajectories are realistic and achievable. AFMA notes that one of the key issues with the NSW RFS was that targets were set at a level that the industry was unable to meet which resulted in the scheme's start date being pushed back. We therefore encourage the Government to build periodic reviews into the scheme which may help ensure targets remain aligned with market development and avoid issues experienced in other schemes where ambition has outpaced available supply. Long term targets provide enduring investment signals, and a key defining success of the RET, but they must be set appropriately with sufficient flexibility, particularly for new schemes. Striking the right balance is critical to the schemes' success.

3. Obligated fuels and entities

AFMA agrees that the proposal to initially cover diesel, jet fuel and petrol is broad enough to capture sectors where low-emissions alternatives such as electrification, are less developed, less economic or more practically challenging to implement. The greater implementation challenge is ensuring the costs of compliance is borne by the correct group of obligated entities.

AFMA believes it would be most efficient to initially focus on hard-to-abate sectors for whom electrification is challenging or not possible, such as aviation, mining, shipping, heavy transport and defence, who as the paper notes, are likely to remain reliant on liquid fuels in the medium to long-term. A minimum fuel supply threshold and/or an opt-in arrangement for large fuel users, as suggested, or alternate mechanism may be appropriate to achieve this.

More broadly, as touched on above, the NSW Government has grappled with many of the issues posed in this consultation paper and is likewise expanding their RFS into LCLFs. AFMA therefore encourages DCCEEW to engage directly with them.

AFMA Recommendations

- i. Limit barriers to credit generation and trading
- ii. The scheme should not seek to extend coverage beyond LCLFs
- iii. Utilise the GO scheme framework and consider appropriate alignment with the NSW RFS
- iv. Targets should be realistic, achievable and in line with realistic supply prospects
- v. Scheme should target industries most reliant on liquid fuels with less alternative decarbonisation options

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide additional information or clarity as required. Please contact Monica Young via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,



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