

Low Carbon Liquid Fuels

NatRoad submission – 18 July 2024

NatRoad recommends that the Australian Government should:

- 1. Consult, design and implement an Australian Low Carbon Fuel Standard (LCFS)**
- 2. Implementation of a LCFS should be accompanied by a freeze to the heavy vehicle road user charge**
- 3. Implement commitments to deliver low carbon liquid fuel certification, accounting and production incentives.**

About NatRoad

The National Road Transport Association (NatRoad) is Australia's largest national representative road freight transport operators' association. NatRoad represents road freight operators, from owner-drivers to large fleet operators, general freight, road trains, livestock, tippers, express, car carriers, as well as tankers and refrigerated operators.

The critical role of low carbon liquid fuels

Decarbonisation of road freight transport will require four key pathways:

- Improving road freight efficiency and optimisation of all transport modes
- Use of battery electric vehicles, where appropriate
- Use of hydrogen, where appropriate
- Low carbon liquid fuels, including both biodiesel and renewable diesel.

NatRoad welcomes the Australian Government consultation paper on low carbon liquid fuels, and the recognition of the need for low carbon liquid fuels for decarbonising heavy vehicles (as set out in the consultation on the Transport and Infrastructure Net Zero Roadmap).

The 2024-25 Federal Budget and Future Made in Australia program set out much needed action to advance low carbon liquid fuels, including:

- \$18.5 million over four years to develop a certification scheme for low carbon liquid fuels, including renewable diesel, by expanding the Guarantee of Origin scheme

- \$1.5 million to undertake a regulatory impact analysis of the costs and benefits of introducing mandates or other demand side measures for low carbon liquid fuels
- \$1.7 billion to commercialise net zero innovations, including low carbon liquid fuels.

Heavy vehicles will require the four key decarbonisation pathways, including low carbon liquid fuels, due to the complexity and challenges from reducing emissions in heavy vehicles.

Trucking operators are predominately small businesses on tight margins, who have limited economic bargaining power and cannot simply pass on cost increases. Decarbonisation must be cost-effective to be achieved.

Considering the age of the heavy vehicle fleet, the nature of some transport tasks especially for longer distances and heavier payloads, and the small business nature of the industry, drop-in low carbon liquid fuels can provide near term emissions reductions whilst also providing a long term solution for tasks which may remain beyond the capabilities of electric and hydrogen pathways.

Due to the complexity of the freight task, trucking operators remain best placed to choose the best truck for any specific road freight task.

NatRoad supports reforms to improve the certainty of the sustainability of low carbon liquid fuels, and to encourage their domestic production. The Government should also prioritise development of renewable diesel, B20 and B100 standards.

What is important to our members is the accessibility for the supply of these fuels, their cost, and certainty that the intended benefit of lower emissions will be achieved.

This work should also include an assessment of Australia's existing and future feedstock capacity, noting that there will be other demands on this capacity (including for aviation and shipping) and it will not represent a silver bullet for the entire heavy vehicle sector.

Low Carbon Fuel Standard

NatRoad recommends that the Australian Government regulatory impact analysis for demand side measures should focus on consulting, assessing and design of an Australian low carbon fuel standard.

This should be based on carbon intensity approach, with stable, predictable and achievable targets and reduction trajectories.¹

¹ NatRoad acknowledges engagement with the Australian Institute of Petroleum and their submission to the Electricity and Energy Sector Plan Discussion Paper, which has informed this position.

Benefits of this approach would include:

- Incentivising the supply of lower emission fuels. For example, the Californian scheme has been successful in driving increased supply of renewable diesel.
- Reducing emissions from existing vehicles.
- Allows the market to determine lowest cost abatement pathways and provides a long term abatement trajectory and policy certainty.
- Can work alongside other policy measures and a broader transition strategy.

Work towards a low carbon fuel standard should be progressed as a priority, as earlier implementation would enable greater emissions abatement and a soft starting point.

Cost impact of a Low Carbon Fuel Standard

In a low margin industry, any increase in costs risks significant economic impact. Depending on the design of a LCFS, it presents one of the lowest cost options for reducing heavy vehicle emissions for trucking operators.

The design work of a LCFS will be critical, and NatRoad will not support imposing significant costs onto trucking operators.

Depending on the design of an Australian LCFS, NatRoad would recommend that implementation of a LCFS should be accompanied by a three year freeze in the heavy vehicle road user charge to ensure governments are not applying unreasonable upwards pressure on fuel prices.

A broader transition strategy for road freight transport

Enabling low carbon liquid fuels and implementing a LCFS are just one part of the broader transition strategy which is needed to reduce road freight transport emissions in a cost-effective manner.

In 2023, NatRoad published an industry whitepaper setting out a broad framework for road freight decarbonisation and recommending that the Australian Government establish a \$3.5 billion Clean Transport Fund.

In May 2024, we launched the first phase of Get Fleet Fit which provides our industry with guidance on measuring and reducing emissions, reducing costs and improving fuel efficiency.

We will shortly provide our input into the consultation on the Transport and Infrastructure Net Zero Roadmap, which will include a number of additional recommendations.