

15 September 2026

Department of Climate Change, Energy, the Environment and Water
GPO Box 3090 Canberra ACT 2601
Via email: LCLFEngagements@dcceew.gov.au

To Whom It May Concern,

RE: Securing Australia's Cleaner Fuels Industry: Consultation paper on a demand mechanism

GrainGrowers welcomes the opportunity to participate in the consultation on *Securing Australia's Cleaner Fuels Industry consultation* paper on a proposed demand mechanism for low carbon liquid fuels.

Australia's grain industry is poised to play a pivotal role in the development of low-carbon liquid fuels, leveraging decades of expertise in grain and oilseed production.

Australian grain and oilseed industries are well positioned to support a diverse range of established and emerging low-carbon liquid fuel pathways. Existing feedstocks such as canola are already contributing to the production of biodiesel and Sustainable Aviation Fuel (SAF), while grains including wheat, sorghum and barley can be utilised in ethanol production and advanced Alcohol-to-Jet (ATJ) technologies.

Looking ahead, emerging feedstocks such as carinata, alongside other novel energy crops, offer significant opportunities to expand and diversify Australia's feedstock base. Continued innovation in crop development, agricultural practices and conversion technologies will enable the sector to adapt and evolve as technologies evolve.

The development of a domestic low-carbon liquid fuel industry using Australian grain presents a unique opportunity to advance two national priorities: strengthening fuel security and reducing emissions. Australia remains heavily reliant on imported liquid fuels, leaving domestic supply chains exposed to global market disruptions and geopolitical instability. At the same time, Australia faces increasing pressure to decarbonise key hard-to-abate sectors such as the aviation industry and to support the transition to lower-emissions energy sources. Expanding domestic production of sustainable low-carbon liquid fuels offers a practical pathway to address both challenges by enhancing sovereign fuel capability while contributing to national emissions reduction objectives.

For Australian grain growers, the development of a domestic low-carbon liquid fuels industry will create valuable new market opportunities. Expanding domestic demand would give growers

access to a broader range of customers and end uses, strengthening market diversity and supporting the long-term resilience and value of Australian grain production.

To support these objectives and ensure the development of a sustainable, competitive and grower-focused low-carbon liquid fuels industry, GrainGrowers makes the following recommendations:

1. Prioritise the use of Australian feedstocks and domestic production

Any potential demand mechanism should be designed to prioritise use Australian feedstocks.

This will maximise regional economic benefits, strengthen domestic supply chains, and enhance Australia's fuel security.

There are already a range of proven domestic feedstocks produced at commercial scale, capable of supporting near-term industry development, including canola, sorghum, wheat, cane, tallow, used cooking oil, and forestry-by-products.

Significant volumes of Australian-grown feedstocks are already used to support overseas low carbon fuel industries. For example, much of Australia's canola crop is exported to Europe for biodiesel production, while Australian wheat-based ethanol is exported into Asian markets. The development of a domestic industry would enable Australia to capture more of the value generated from these supply chains through local processing, investment, employment and technology development.

Without a strong domestic production focus using domestically grown feedstocks, there is a risk of replacing one form of import dependence with another, undermining the broader strategic objectives of the policy.

Similarly, imported feedstocks can pose a significant biosecurity risk to Australia by introducing exotic pests, diseases, weeds that are not currently present in the country. These incursions can threaten agricultural productivity, native ecosystems, and market access for Australian industries. For example, an outbreak of Khapra beetle could cost Australia's grains and agricultural industries upwards of \$15.5 billion over 20 years due to international trade restrictions.

Prioritising domestically sourced feedstocks reduces these risks while supporting the long-term resilience of Australia's liquid fuel industry.

2. Adopt a staged and pragmatic implementation pathway

Demand mechanisms should be introduced progressively, beginning with Sustainable Aviation Fuel, where there is both a strong decarbonisation imperative and a comparatively straightforward implementation pathway.

The aviation sector is characterised by a small number of fuel suppliers, airports and airlines, making compliance, monitoring and fuel distribution significantly less complex

than in sectors such as road transport, which involve thousands of fuel retailers, distributors and fleet operators across a highly dispersed network.

The mechanism could then expand in defined stages to other fuels in hard-to-abate sectors. This phased approach will reduce implementation risks, allow supply chains to develop in an orderly manner, and provide opportunities to incorporate lessons learned before broader deployment across other industries.

3. Government should ensure the transition to low carbon liquid fuels does not impose additional financial costs on fuel users

Where policy settings require or incentivise increased uptake of low carbon liquid fuels, the Australian Government should ensure sufficient supply side measures to address price differentials between low carbon liquid fuels and conventional fuels.

Australian growers are already facing the impacts of significantly elevated diesel prices, which have increased production costs and placed considerable pressure on farm profitability. Given that grain is traded in global commodity markets, Australian growers are price takers and generally cannot pass increased fuel costs on to customers. Any policy mechanism that further increases fuel costs risks disproportionately impacting grain growers and other agricultural producers, eroding competitiveness and reducing profitability without providing a corresponding ability to recover those costs through market returns.

Fuel is a critical input across Australian grain production, from sowing, harvesting, to transport grain to market and export. Further increases in fuel costs would place additional strain on Australian grain growers at a time when many are already managing volatile input costs, challenging seasonal conditions and a complex international trading environment.

More broadly, fuel prices are a key driver of costs across the economy, contributing to inflationary pressures and higher costs for businesses and consumers. Without mechanisms to bridge the cost gap between conventional fuels and low carbon liquid fuels, there is a risk that mandated or incentivised uptake could result in further inflationary impacts across the economy.

Government should therefore play a central role in supporting the transition by bridging the price gap between low carbon and conventional fuels during the scale-up phase. This could include production incentives, investment support, tax concessions, or other policy measures that improve the competitiveness of low carbon liquid fuels without increasing costs for end users.

4. Leverage government procurement to drive early demand

Australian Government procurement should play a central role in stimulating early demand for low carbon liquid fuels and supporting the establishment of a domestic

production industry. As a major fuel consumer, the Australian Government is well positioned to drive early demand for low carbon liquid fuels, helping to accelerate industry development while demonstrating leadership in the transition to lower-emissions fuels.

For example, the use of low carbon liquid fuel could play a key role in assisting the Australian Defence Force (ADF) to reach decarbonisation goals. The ADF accounts for nearly two-thirds of all Australian Government emissions, largely due to its extensive use of energy-intensive assets such as jets which present unique and complex challenges to decarbonise.

Long-term government purchasing commitments can provide a critical source of predictable demand, improve investor confidence and reduce the commercial risks associated with developing new production capacity. This demand certainty is particularly important during the early stages of market development, when production volumes are lower and investment costs remain high.

Strategic procurement policies can also help bring new production facilities to commercial scale, support regional economic growth, and strengthen domestic fuel security by creating a stable foundation from which broader market demand can grow. Government procurement should therefore be used as an early market catalyst, helping to establish industry capability and reduce costs over time.

5. Develop a long-term, technology-neutral framework that supports proven and emerging production pathways

Any future demand mechanism should adopt a long-term, technology-neutral approach that supports a broad range of low carbon liquid fuel technologies and feedstocks, rather than prescribing specific production pathways or favouring particular technologies. Such an approach will encourage innovation, and ensure the policy remains flexible as technologies mature and feedstock availability evolves.

It is vital Australia avoids imposing arbitrary caps or restrictions on specific production pathways. As recognised in the consultation paper, imposing pathway-specific caps on HEFA technology risks increasing regulatory complexity, compliance costs, and investment uncertainty.

The International Air Transport Association (IATA) has cautioned against setting technology targets ahead of market readiness, noting that policies which require uptake before production capacity is established risk driving up costs without delivering the intended emissions reductions. As IATA's Senior Vice President Sustainability and Chief Economist, Marie Owens Thomsen, stated:

“Such a strategy will only drive up the price. Coupled with penalties, it diverts scarce resources from being allocated to actual CO2 emissions reductions.”

A flexible, technology-neutral framework will provide the greatest opportunity to scale production, reduce costs over time in a practical and economically sustainable manner.

6. Ensure policy settings protect grower optionality by maintaining voluntary participation in feedstock production and preserving growers' ability to respond to market signals

It is vital growers maintain the ability to independently decide how their land, crops, residues and other agricultural outputs are managed, utilised and marketed in accordance with their agronomic circumstances, commercial objectives and business needs.

Protecting grower optionality is essential to ensuring that participation in feedstock markets remains commercially driven and responsive to market conditions. Growers operate in diverse production systems and market environments and must retain the flexibility to respond to changing agronomic conditions, input costs, commodity prices and customer demand.

GrainGrowers strongly opposes heavy-handed interventions in feedstock markets, including feedstock reservation policies or other measures that direct agricultural production toward specific end uses. Such interventions risk distorting market signals, reducing market efficiency and creating unintended consequences across agricultural supply chains. Reservation mechanisms could reduce grower returns, discourage investment, and limit the availability of grain and oilseeds for food, feed and export markets, undermining Australia's reputation as a reliable supplier to global customers.

Similarly, maintaining soil health is fundamental to the long-term sustainability of Australian grain production and must remain a core consideration in identifying and developing low-carbon liquid fuel feedstocks. While materials such as cereal straw, the dry stalks of crops like wheat, barley, and oats left after harvest, have been identified as potential feedstocks, however their widespread removal from paddocks could have unintended and adverse environmental consequences.

Maintaining voluntary participation in feedstock production will help ensure the sector develops in a way that delivers benefits for fuel producers, consumers and growers alike.

GrainGrowers welcomes the opportunity to discuss this issue further.

Please contact GrainGrowers Policy Manager, Trade and Supply Chains, Annabel Mactier (Annabel.mactier@graingrowers.com.au) if you have any questions.

Yours sincerely,



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