WWF AUSTRALIA

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Submission to DCCEEW and DITRDCSA Consultation Paper: Demand Mechanism for Cleaner Fuels

The World Wide Fund for Nature-Australia (WWF-Australia) welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water (DCCEEW) and the Department of Infrastructure, Transport, Regional Development, Communications and the Arts (DITRDCSA) consultation paper on a demand mechanism for cleaner fuels.

WWF-Australia is part of the WWF International Network, the world's largest independent conservation organisation operating in over 100 countries. WWF's global mission is to *stop the degradation of the planet's natural environment and to build a future in which humans live in harmony with nature*. WWF-Australia has offices around Australia and is backed by approximately 1.2 million supporters.

WWF-Australia acknowledges the Traditional Owners of Country throughout Australia and recognises their continuing connection to land, waters and culture. We pay our respects to Elders past and present and acknowledge the ongoing custodianship of First Nations peoples. We recognise the important role of First Nations knowledge systems and governance in informing policy, stewardship and the transition to a regenerative and nature-positive future.

Climate change and biodiversity collapse are the two greatest threats facing both humans and nature today. These crises are intertwined, compound global inequalities, and must be addressed together.

WWF considers that the transition to a net zero economy needs to be "fast, best, and just". This means it is now time to build faster to keep stabilising global average temperatures to 1.5°C in reach, more ecologically sound to reverse the trend of biodiversity loss, and fairer to achieve a just and resilient transition for local communities and the broader region. There can be no fast transition if it does not work for people and nature.

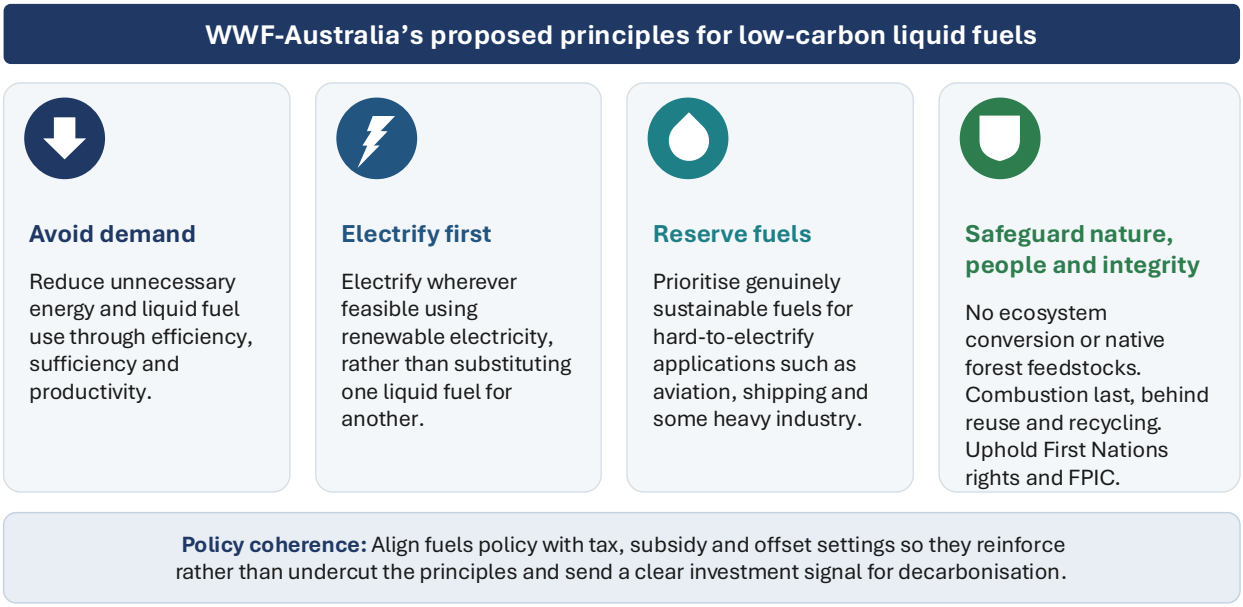
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Executive Summary

WWF-Australia supports the development of a high-integrity domestic low carbon liquid fuels (LCLF) industry and recognises the important role that LCLF can play in reducing emissions from hard-to-abate sectors. A credible and enduring demand signal will be essential to unlock investment, support domestic production, strengthen fuel security and accelerate emissions reductions across these sectors.

However, a successful liquid fuels policy should not simply maximise renewable fuel volumes. Australia's long-term energy security will come from reducing dependence on liquid fuels altogether, not from substituting one liquid fuel for another. This exposure is already economically significant: recent analysis estimates that Australia incurred US$6.4 billion in additional net diesel and gasoil import costs between March and August 2026, more than any other country in that market[1].

Policy design should therefore be guided by decarbonisation productivity: achieving the greatest verified fossil fuel displacement and lifecycle emissions reduction for each unit of energy, public support and scarce sustainable feedstock used. This means the mechanism should reduce avoidable liquid fuel demand, accelerate electrification wherever feasible, reserve sustainable fuels for genuinely hard-to-abate sectors and ensure robust sustainability standards[2][3].



In short, success should be measured by verified displacement of fossil fuels, genuine lifecycle emissions reductions, environmental integrity and productivity outcomes, fair outcomes for First Nations peoples and regional communities, and not by a narrow focus on LCLF volumes alone.

[1] Centre for Research on Energy and Clean Air (2026), *What the Hormuz crisis has cost fossil fuel importers — March to August 2026* https://energyandcleanair.org/what-the-hormuz-crisis-has-cost-fossil-fuel-importers-march-to-august-2026/
[2] WWF-International (2023), *Global Energy Policy Framework,* https://wwfint.awsassets.panda.org/img/original/wwf_global-energy-policy-framework-v3.pdf
[3] WWF-EU (2024), *WWF guidance for EU member states on bioenergy plans and policies,* https://wwfeu.awsassets.panda.org/downloads/wwf-briefing-bioenergy-final.pdf

Summary of recommendations

As the Government considers the design of a demand mechanism for LCLF, WWF-Australia encourages adoption of a framework that prioritises verified fossil fuel displacement, lifecycle emissions reduction, nature and water protection, First Nations rights and decision-making partnership, and transparent, independently verified outcomes.

Prioritises highest-value abatement

1. **Provides long-term policy certainty** and ambition to drive investment in Australian LCLF production and supply chains.
2. **From commencement, rewards fuels according to the emissions reductions they achieve across their full lifecycle,** rather than relying solely on volumetric targets until 2035. Early carbon-intensity incentives would strengthen the market signal for the cleanest fuels and production pathways.
3. **Recognises fuel avoidance, electrification and genuinely sustainable LCLF from commencement** so the mechanism guides policy design towards the highest-value abatement options and accelerates decarbonisation rather than simply increasing fuel volumes.
4. **Reserves scarce genuinely sustainable LCLF for where they are needed most,** including applications where electrification is difficult, such as aviation and shipping, while recognising that different sectors will move through different transition pathways and timeframes.
5. **Supports innovation, transparency and continuous improvement** by pulling deep-abatement pathways forward as technologies and markets mature, and by including review points and sunset clauses.

Guarantees strong sustainability safeguards to protect nature, water, food systems and communities

6. **Requires comprehensive lifecycle and counterfactual emissions accounting to ensure LCLFs deliver genuine emissions reductions and verified fossil fuel displacement.**
    a. Includes direct and indirect land-use change, forgone sequestration, feedstock diversion and full supply-chain emissions
    b. Ensures fuels with higher lifecycle emissions than fossil alternatives are not rewarded
7. **Includes robust sustainability safeguards, certification requirements, transparency and independent assurance** that protect biodiversity, natural ecosystems, food supply, water resources, First Nations rights and cultural authority, and community interests; and embed the following principles:
    a. No conversion or degradation of natural ecosystems
    b. No use of primary woody biomass and native forest biomass in fuels
    c. Explicit protection of freshwater resources
    d. Restoration should be prioritised before energy cropping
    e. Recognition that wastes and residues are not impact-free
    f. Protection of food systems and local needs
    g. Requirements that go beyond certification alone
8. **Recognises First Nations peoples as rights-holders and decision-making partners and delivers equitable benefits for regional communities**, while ensuring a fair distribution of risks and opportunities.
    a. Requires free, prior and informed consent (FPIC), self-determination, and protection of land, water, cultural and resource rights.

b. Enables full, equitable participation in governance and implementation, including local ownership, jobs and benefits.
c. Aligns with the broader First Nations Principles for Clean Energy Projects[4]

Aligns with the broader policy suite to provide clear market signals for genuine decarbonisation

8. **Ensures settings across the broader policy suite align** with the Safeguard Mechanism and other decarbonisation policies to provide consistent signals for verified fossil fuel displacement, electrification and genuinely sustainable LCLF adoption.
9. **Progressively reforms the Fuel Tax Credit to support electrification and genuinely sustainable cleaner fuel uptake** so that policies reinforce rather than counteract each other, while protecting farmers, small operators and regional communities.
10. **Reinvests scheme revenue, penalties and rebate savings** into an electrification and clean fuels fund that builds infrastructure, supports independently verified fossil fuel displacement and enables genuinely sustainable LCLF in hard-to-electrify sectors.

Australia's long-term energy security and climate objectives will be best served by a framework that rewards fuel avoidance, electrification and genuinely sustainable LCLF in that order.

WWF-Australia welcomes the Government's commitment to ongoing consultation and evidence-based policy development. We look forward to continued engagement on the design and implementation of a demand mechanism that supports Australia's climate, energy security, economic development and nature-positive objectives.

[4] https://assets.nationbuilder.com/fncen/pages/183/attachments/original/1680570396/FNCEN_-_Best_Practice_Principles_for_Clean_Energy_Projects.pdf?1680570396

The mechanism must prioritise highest value abatement.

WWF-Australia supports a cleaner fuels demand mechanism that is designed around decarbonisation productivity: achieving the greatest, genuine emissions reduction, fuel security and economic value for each unit of energy used, rather than simply increasing the volume of LCLF supplied. The consultation paper identifies the policy objective as reducing Australia's reliance on fossil liquid fuels by increasing lower-emissions alternatives, particularly for sectors where liquid fuels remain difficult to replace. It recognises that electrification and emerging technologies will displace liquid fuel use where technically and economically viable. LCLF supply should come from high-integrity feedstocks and production pathways that meet robust environmental, social and lifecycle emissions safeguards, so genuinely sustainable LCLF are directed to priority uses where they deliver genuine additional value. This means the mechanism should be guided by a clear hierarchy: first reduce avoidable energy and liquid fuel demand; then electrify wherever feasible using renewable electricity; and only then reserve genuinely sustainable LCLF for applications that remain hard to electrify, including aviation, shipping, defence, some heavy transport, mining and agriculture.

The mechanism must provide long-term policy certainty and sufficient ambition to unlock investment, while embedding carbon-intensity incentives from commencement rather than waiting until 2035. While the consultation paper proposes collection and reporting of lifecycle carbon intensity data from commencement, the proposed framework does not use carbon intensity as a meaningful compliance mechanism until 2035[5]. A volume-based approach alone risks supporting fuels that satisfy volumetric targets while delivering relatively poor lifecycle emissions outcomes. As the paper's modelling indicates, carbon-intensity approaches provide greater flexibility and more directly reward emissions outcomes than volumetric requirements. More flexible approaches deliver emissions reductions at lower overall cost.

The mechanism should also concentrate scarce genuinely sustainable LCLF where they are most needed. LCLF should not be used to delay direct electrification or prolong avoidable combustion in sectors where cheaper and more efficient technologies are available with a lower emissions profile. A dedicated aviation requirement may be appropriate as aviation has fewer near-term decarbonisation options and sustainable aviation fuel risks being disadvantaged under a broad market mechanism due to higher costs.

[5] https://consult.dcceew.gov.au/securing-australias-cleaner-fuels-industry-consultation

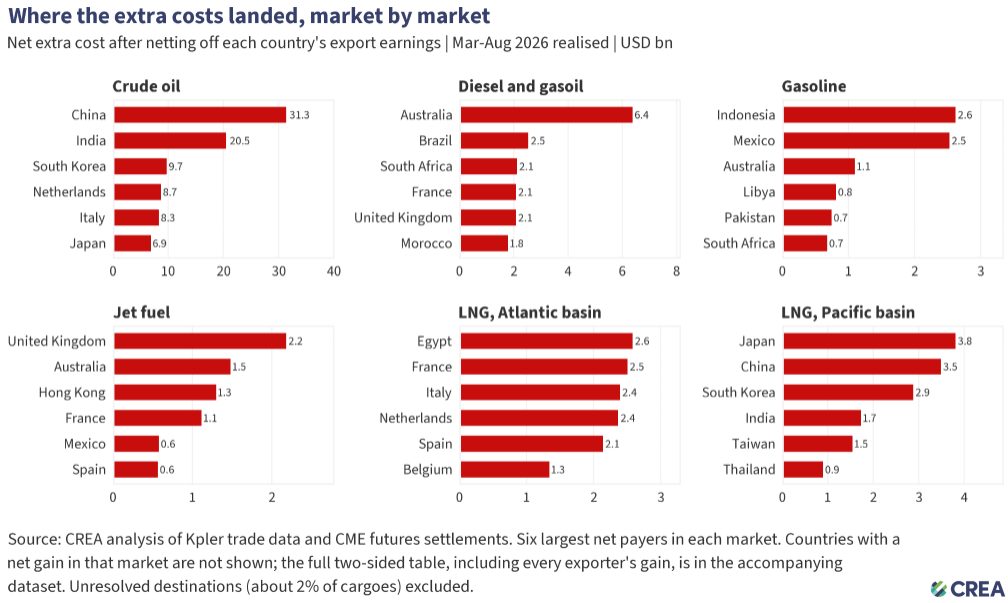


Figure 1 – Additional net fossil fuel import costs by market after Hormuz crisis, March to August 2026 (Centre for Research on Energy and Clean Air, 2026)
Australia incurred the highest additional diesel and gasoil import cost among analysed countries at US$6.4 billion. It also holds top three positions for jet fuel (US$1.5 billion) and gasoline (US$1.1 billion), highlighting Australia's vulnerabilities.

The mechanism's key performance indicators should measure whether fossil fuel use is actually falling, not only whether LCLF volumes or domestic production are increasing. The proposed KPIs measure growth in LCLF production and consumption but do not directly measure displacement of fossil fuels. An increase in LCLF volumes can occur alongside stable or increasing fossil fuel consumption. To assess whether the mechanism is achieving its stated fuel security and emissions objectives, the evaluation framework should include indicators such as net fossil fuel displacement (ML/year), reductions in imported fossil fuel volumes, and changes in import dependency relative to a defined baseline scenario. WWF-Australia recommends adding explicit KPIs that track reductions in total fossil petrol, diesel and jet fuel supplied into the Australian market and associated lifecycle and domestic emissions reductions over time. This would align evaluation with the paper's stated measure of success: whether Australia is reducing exposure to international fossil fuel price shocks by displacing fossil liquid fuels and whether it is reducing associated emissions.

Strong sustainability safeguards must protect nature, water, food systems and communities.

Robust sustainability, certification and accounting requirements must be central to the demand mechanism, not treated as secondary implementation details. Low carbon liquid fuels can only contribute to genuine decarbonisation if they avoid shifting emissions, biodiversity loss, water stress or social impacts elsewhere in the supply chain. Policy eligibility should therefore attach to each feedstock-pathway combination.

WWF-Australia recommends that the Government establish a transparent traffic-light feedstock risk-classification framework to guide eligibility, safeguards and future reviews. This should classify feedstock-pathway combinations as preferred, requiring additional safeguards, or excluded, based on criteria including lifecycle emissions reductions, land-use change risk, biodiversity impacts, freshwater impacts, competing uses, circular-economy considerations and implications for food systems.

The mechanism should include clear statutory exclusions for feedstocks connected to deforestation, conversion of grasslands, savannahs, wetlands or peatlands, or degradation of protected areas and High Conservation Value ecosystems. It should also exclude primary woody biomass and native forest biomass, including whole trees, trunks, stumps and branches taken directly from forests[6]. LCLF policy must not increase pressure to continue native forest harvesting.

The mechanism should account for climate-related feedstock risks. Reliance on energy crops and other agricultural feedstocks may expose fuel supply chains to growing climate impacts, including drought, extreme heat, bushfires, flooding, pests and disease. Feedstock assessment should incorporate climate resilience and supply-security considerations, recognising that some biofuel pathways may become increasingly vulnerable as climate change intensifies.

Land availability should be assessed against restoration, biodiversity, food-production, cultural and carbon-sequestration values before energy cropping is considered. Policy design should not assume that "marginal" or "degraded" land is automatically available for fuel production. Where land or biomass has higher-value ecological, food, feed, cultural, restoration or carbon-storage uses, those uses should take priority.

Lifecycle accounting must be comprehensive and counterfactual. It should include direct and indirect land-use change, forgone sequestration, soil carbon impacts, input emissions, transport, processing, combustion, residue removal and feedstock diversion.

Wastes and residues should not be treated as impact-free: the mechanism should apply a cascading-use hierarchy and test whether residues perform ecological functions, contribute to soil carbon or nutrients, or have higher-value material, food or feed uses. Combustion should be considered the last available option for a waste stream after re-use, repair, recycling etc.

Freshwater resources should be explicitly protected through assessment of both water quantity and water quality at the landscape or catchment scale, including cumulative impacts and future climate stress. The mechanism should also protect food systems and local needs by accounting for future food and feed demand, and by ensuring local access to food, water and modern energy takes precedence over production of export fuels.

Strong environmental safeguards must be matched by rights-based and community-centred safeguards. The mechanism should require free, prior and informed consent (FPIC), protect land and resource rights, enable full community participation and support local ownership, jobs and benefits for regional communities and First Nations peoples[7].

Certification is necessary, but not sufficient. Strong certification schemes should be complemented by statutory feedstock exclusions, lifecycle tests, transparent chain-of-custody requirements and independent auditing.

The mechanism must align with the broader policy suite and together provide a clear market signal for genuine fuel decarbonisation.

A cleaner fuels demand mechanism will only be effective if it is aligned with the wider policy architecture shaping fuel use, emissions reduction and investment decisions. The consultation paper recognises potential interactions with the Safeguard Mechanism, ACCU Scheme, New Vehicle Efficiency

[6] WWF-EU, *Bioenergy,* https://www.wwf.eu/what_we_do/climate/bioenergy/
[7] First Nations Clean Energy Network, *Building capacity of proponents,* https://building-capacity-of-proponents.firstnationscleanenergy.org.au/early_engagement_with_first_nations

Standard, existing fuel security settings and state biofuel mandates, and notes that these interactions must be managed to avoid overlap, duplication or unintended outcomes.

The Government should assess and address policy interactions between the cleaner fuels mechanism, the Safeguard Mechanism and other decarbonisation policies to ensure they provide a consistent signal for fossil fuel displacement. Policy settings should favour demand reduction, electrification and the uptake of genuinely sustainable LCLF, rather than creating incentives to prolong liquid fuel combustion through offsets, fuel substitution or other compliance pathways where deeper emissions reductions are available. The Government should also clarify how LCLF supplied under the mechanism will be reflected within existing emissions accounting frameworks, including the Safeguard Mechanism, to ensure that incentives are aligned across the policy suites.

The same principle should apply to Fuel Tax Credits. WWF-Australia recommends progressive reform of the Fuel Tax Credits scheme so that it reinforces electrification and uptake of genuinely sustainable LCLF, while protecting farmers, small operators and regional communities from abrupt cost impacts. Any reform should be phased, predictable and paired with targeted reinvestment so affected users have practical alternatives before support is withdrawn.

Scheme revenue, non-compliance penalties and any capped rebate savings should be directed into an electrification and clean fuels fund. This fund should support the enabling infrastructure needed to reduce fossil liquid fuel dependence, including charging infrastructure for heavy vehicles and regional transport, renewable electricity connections, sustainable aviation fuel supply infrastructure, storage and distribution upgrades, and support for genuinely sustainable LCLF in hard-to-electrify sectors. This would ensure revenue raised through the mechanism is recycled into measures that directly support its objectives.

Policy alignment should also be reflected in the mechanism's evaluation framework. This would help ensure Australia's cleaner fuels policy supports a genuine transition away from fossil liquid fuels, rather than creating parallel incentives that pull in different directions.

Conclusion

WWF-Australia supports urgent action to replace fossil liquid fuels and establish a high-integrity Australian low carbon liquid fuels industry. Sustainable LCLF will be essential for reducing emissions in applications where direct electrification is not yet technically feasible, particularly aviation and some maritime, industrial and heavy transport uses. A credible and enduring demand signal can help bring forward investment, strengthen fuel security and build valuable domestic capability.

The opportunity, however, is not simply to produce and consume more liquid fuel. The mechanism should accelerate Australia's transition away from fossil fuels by reducing avoidable demand, electrifying wherever feasible and reserving genuinely sustainable LCLF for the applications that need them most. Its success should be measured through fossil-fuel displacement, full-lifecycle emissions reductions, protection of nature and water, and fair outcomes for First Nations peoples and regional communities.

A future made with Australia

A successful transition to net zero is not a zero-sum game, and it is not a simple quick fix. Australians, along with our key Asia-Pacific trading partners, must be assured that the transformation is a collaborative and mutually beneficial process, undertaken with them, not imposed upon them. In the context of cleaner fuels, this means building demand and supply in ways that reduce fossil fuel dependence, accelerate electrification where possible, protect nature and water, and create durable opportunities for regional communities and First Nations peoples.

Done right, a cleaner fuels industry can strengthen Australia's economic competitiveness, support good regional jobs, enhance fuel security nationally and regionally, and help decarbonise sectors where direct electrification is not yet feasible.

Australia has the technical expertise, culture of innovation, and abundant renewable energy resources needed to power a fast, ecologically sound, and socially just energy transition. We can support our communities, our neighbouring countries, and our economies to adapt and build resilience to the unavoidable impacts of climate change, and we can do it in ways that protect nature and ensure that everybody shares in a prosperous, healthy, net zero future.

For more information

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