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9 February 2022

The Treasury
Langton Crescent
PARKES ACT 2600

Via email: prebudgetsubs@treasury.gov.au

QANTAS GROUP SUBMISSION TO COMMONWEALTH BUDGET 2022-2023

The Qantas Group (Qantas) welcomes the opportunity to make a submission to Treasury regarding priorities for the 2022-2023 Commonwealth Budget (**Budget**).

Qantas' submission focuses on the importance of sustainable aviation fuel (**SAF**) for the aviation industry and broader economy. As Australia's aviation industry looks to emerge from the COVID-19 pandemic, the industry must develop new technologies that will assist in the industry's recovery and underpin its sustainable future. To enable and expedite this transition and facilitate the development of a domestic SAF market with production capability, government support is required.

The recent release of the Government's Bioenergy Roadmap, identified SAF as a priority market opportunity. By increasing the use of biofuels as an alternative to fossil fuels, it will reduce greenhouse gas emissions from the transport sector, contributing to Australia's progress towards a net zero emissions economy and support the Government's commitment to reduce emissions through 'technology not taxes'.

Because of the timeframes to development and range limitations involved with more radical technology options (i.e. hydrogen and electric aircraft), SAF represents the only viable de-carbonisation option for long haul aviation. In these circumstances, the adoption of appropriate policies and sector wide financial incentives supporting the development of a domestic SAF market is critical for Australia's aviation industry, particularly as international travel increases.

We welcome the Government's initial \$33.5 million commitment to advance the development of SAF and biofuels in Australia but it is insufficient to advance the changes and investment that are needed now. Given the importance of aviation to Australia and the fact that Qantas uplifts 70 per cent of its fuel here, there is a significant opportunity to build a domestic SAF industry. This would have a number of strategic national benefits, including:

1. ensuring future domestic liquid fuel security (together with renewable diesel);
2. continuing capability for Defence, along with supporting Defence to achieve its decarbonisation initiatives;



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3. supporting Australia's international emission reduction commitments; and
4. providing a regional economic development opportunity through the development of a SAF export market.

Challenges for establishing an Australian SAF market

Presently, there are three primary challenges to establishing a SAF market in Australia:

1. **securing feedstocks and supply chain integration** – securing sufficient quantities of sustainable biogenic feedstocks that can be integrated from a supply chain perspective with a biorefinery;
2. **challenging economics** – particularly for an emerging industry, the current price of SAF in Australia is 4-5 times that of traditional jet fuel; and
3. **policy settings** – the absence of a robust Government policy framework supporting the production, uptake and export of a domestic SAF market means Australia stands to be a price-taker with insufficient domestic capabilities.

Greater investment in SAF is critical for Australia's economy and recovering aviation sector

In order to unlock the potential of a domestic SAF market, Government investment is required to:

1. **stimulate demand** – through the introduction of:
 - i. a direct liquid fuel security subsidy that is applicable only for renewable fuels, in particular SAF (reallocating the existing fossil fuel tax credit to apply only to renewable fuels), similar to the subsidy that has been implemented in the US; and/or
 - ii. a SAF blending mandate for Australian airlines with blending levels increasing progressively over time (including mandating Government use of SAF and biofuels for liquid fuel security);
2. **increase domestic production capability** – by de-risking first-of-a-kind SAF production plants in Australia through increasing funding, tax incentives and/or subsidies towards research, pilots and trials focusing on the demonstration of SAF at a commercial scale in addition to the \$33.5 million provided under the Government's Bioenergy Roadmap; and
3. **increase domestic feedstock availability** – by providing financial incentives for biofuel producers so that Australian feedstocks are not exported offshore with implementation of a Low Carbon Fuel Standard (as modelled in California). Moreover, additional financial assistance is required in the form of grant funding, tax incentives and/or subsidies for biofuel producers to assist in the integration of SAF supply chains when aggregating and transporting feedstocks to biorefineries; and
4. **send a strong demand signal to biofuel producers** – by introducing one or more of the following:
 - i. setting an ambitious 2030 SAF domestic production target (i.e. using the Biden Administration as an example, increasing production of SAF to at least 3 billion gallons per year by 2030);
 - ii. mandating a SAF target for the Department of Defence by 2030 as part of their Future Fuels Strategy; and/or
 - iii. integrating SAF into Government procurement processes whereby SAF is directly procured through competitive tenders. Additionally, mandating that Government staff travel utilise and fund a percentage of SAF per flight aligning with 2030/2050 targets.

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In order to accelerate and facilitate the above, a co-ordinated approach to decision making is required. It is critical that a representative body (preferably with Ministerial and Department representation) be established that is empowered to make decisions on SAF policy response initiatives and priorities.

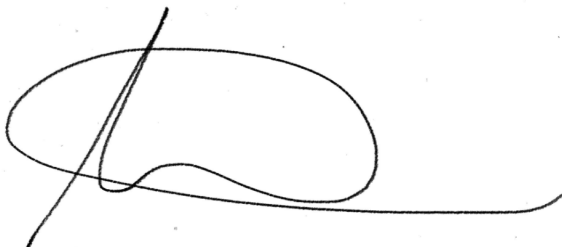
Qantas' commitment to the domestic SAF market

Qantas is committed to developing the domestic SAF market through:

- developing a portfolio of projects to ramp up supply – Qantas will deploy its announced \$50 million commitment plus the matching funds being sought from partners to invest in viable domestic SAF opportunities and/or feedstock producers (both onshore and offshore). The purpose of such investments is to ensure a competitive supply side market, ensure that all available feedstocks are developed and accelerate production;
- working with industry to create SAF policy frameworks – the primary reason that biofuel and synthetic fuel industries are developing overseas and not in Australia is the difference in policy settings. Qantas is committed to working with all levels of government to create a favourable SAF policy environment to enable the establishment of a SAF industry;
- collaborating with customers and partners – the cost of SAF will remain significantly higher than fossil fuel for the foreseeable future. While direct support from government may reduce the cost premium (in the UK the subsidy is currently equivalent to ~x2 the cost of fossil fuel), Qantas' corporate customers are keen to make contributions to help reduce the cost premium; and
- negotiating with major local suppliers – continuing discussions with major local suppliers of fossil fuel such as bp, Shell and Ampol which will be seeking strategic positions in the SAF supply chain both domestically internationally. Qantas is seeking to leverage accumulated knowledge and understanding from the due diligence on prospective investments in biorefinery and feedstock opportunities.

I would welcome the opportunity to discuss how investment in, and the development of SAF in Australia can be further progressed.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized loop followed by a horizontal line extending to the right.

Andrew McGinnes

Group Executive, Corporate Affairs