

12 July 2024

Director
Production Tax Incentives Unit
Email: CriticalMineralsProductionTaxIncentive@treasury.gov.au

Dear Director

Liontown Resources (Liontown or the Company) welcomes the opportunity to provide feedback to Treasury's *Critical minerals production tax incentive* (CMTPI) consultation paper. The Company supports the CMTPI and is motivated to ensure its design and implementation deliver on the intent and, crucially, that the CMTPI is buttressed by a suite of complementary policy measures to secure the future viability of Australia's critical minerals sector as a whole.

As a member of the Association of Mining and Exploration Companies (AMEC), Liontown supported AMEC's on advocacy for a Critical Mineral Production Tax Incentive (CMPTI) and is aligned with AMEC in its detailed submission to Treasury on the CMPTI.

Further to AMEC's submission, Liontown wishes to provide supplementary feedback relevant to the lithium sector, given our perspective as an emerging globally significant lithium producer. Our feedback is focused on the eligible outputs section of the consultation paper and addresses some of the broad policy action required by government aligned to the Critical Minerals Strategy (2023-2030) and Future Made in Australia agenda.

About Liontown

Liontown is an independent ASX-listed company with a vision to be a globally significant provider of battery minerals. The Company is 100% owner-operator of the tier 1 Kathleen Valley Lithium-Tantalum Project (Kathleen Valley) in the northern Goldfields of Western Australia, approximately 700 kilometers north-east of Perth. Kathleen Valley is currently in the commissioning and production ramp-up phase, and will initially produce approximately 500,000 tonnes of 6% spodumene concentrate (SC6) per annum, as well as a tantalum pentoxide product stream. It is important to highlight that spodumene concentrate is already a value-added product in the lithium value chain, having undergone processing from approximately 1-1.5% lithia ore to the 6% benchmark spodumene grade sought by global customers.

Liontown has binding offtake agreements with LG Energy Solution, Telsa and Ford Motor Company and will supply 100% Inflation Reduction Act (IRA) compliant material. The Company has taken a deliberate approach to strategically partner with offtake and funding partners from the Republic of Korea and the United States of America who are diversified by geography and their position on the battery value chain.

There is no other mine of our type to enter production in Australia for the foreseeable future.

In parallel, Liontown is progressing downstream feasibility studies with partners LG Energy Solution and Sumitomo Corporation to explore vertically integrating upstream spodumene production into refined downstream lithium product/s. The Company has a clear and present interest in assessing Australia's attractiveness for downstream processing relative to alternative 'like-minded' jurisdictions who share the same ambitions.



Policy Intent

Liontown has consistently advocated in support of the Australian Government's Critical Minerals Strategy and the CMPTI as a specific incentive to build sovereign capability in critical minerals processing in Australia. The CMPTI is a well-conceived policy, however its design must be effective to deliver on the intent to drive new investment in value-adding processing.

Australia is a global leader in upstream 'hard rock' lithium production and, more broadly, has an established track record as a reliable and respected global commodity supplier. Australia does not enjoy consummate advantages in downstream processing, however, and is at a relative disadvantage given the market concentration of established processing capacity in China and intense competition for new capital investment in allied jurisdictions to diversify secure supply chains away from China.

The unprecedented investment incentives on offer overseas - led by the United States' Inflation Reduction Act (IRA) and quickly adopted by other allied jurisdictions - range from generous upfront grants and capital rebates, to production tax relief and discounted access to land and infrastructure. It is acknowledged that Australia cannot complete 'dollar for dollar' with the wide-reaching and substantial incentives in their entirety. However, the perverse impact of these incentives has rendered the capital landscape ultra-competitive and fundamentally changed the economics for investment – particularly with reference to the scale of upfront investment required to develop critical minerals projects.

Liontown previously commissioned modelling to quantify the impact of some of the key incentive measures being offered by 'like-minded' nations. For example, Japan has implemented a 50% capital expenditure ('capex') subsidy for Japanese businesses developing domestic refining capacity. This subsidy represents an estimated US\$300 million upfront benefit (in net present value terms) to construct a lithium hydroxide facility in Japan.¹

The CMPTI, if implemented effectively, will partially address this shortfall. Modelling undertaken for Liontown suggests a 10% operating cost ('opex') subsidy across all relevant expenditure could attribute a US\$220 million benefit over the life of a lithium hydroxide facility.²

This comparison example highlights that it is more commercial and efficient to pursue downstream processing opportunities offshore. The CMPTI is a necessary measure to improve Australia's competitive position, but it must be complemented by a suite of measures to attract new investment and, importantly, ensure the resilience of Australia's position in critical mineral supply chains.

Eligible Outputs

We recommend Treasury expand the eligible outputs defined under the CMPTI to specifically include midstream processing of lithium and, in doing so, provide flexibility to adapt to the future customer demands for value-added lithium products.

The consultation paper published by Treasury suggested "...the list may specify that lithium spodumene be transformed into lithium hydroxide, lithium carbonate or refined to a minimum purity of 99 per cent lithium by mass, to be eligible."

This position sets a very high bar and suggests Australia will only promote downstream processing industry for lithium if it goes straight to the end of the supply chain. Our position is any move to incrementally add value by processing to 'next saleable product' beyond the raw material should be considered.

Our rationale is as follows:

¹ Net present value basis based on modelling over 17 years for a 190kt spodumene to lithium hydroxide facility

² Net present value basis based on modelling over 17 years for a 190kt spodumene to lithium hydroxide facility



Encourage incremental value-adding processing

Given the stated policy intent is to incentivise the critical mineral sector to move further downstream, it is important to ensure the threshold for eligible output is not too narrow or unattainable. A general policy principle to improve raw material to the point of 'next saleable product' should be incentivised under the CMPTI to incrementally build downstream capacity as industry capability and technology improves, and as customer demands evolve.

Allowing other tradable products such as lithium sulphate, for example, to be eligible still achieves the stated policy intent of value adding to our critical minerals and improving Australia's economic security through resilient and sustainable supply chains.

Encouraging investment in incremental downstream processing also complements other strategies in place such as the Western Australian Battery and Critical Mineral Strategy (2024-2030). Alignment with State Governments who are also applying their policy levers to maximise the potential of Australia's resource endowment and attract new investment to expand the capacity of our domestic critical mineral supply chain.

Including midstream lithium products should not have an adverse effect on the estimated costings to implement the CMPTI. In the context of the Australian lithium market, there is a limited pool of producers capable of providing feedstock to input into domestic processing facilities. At current depressed spot prices, no new lithium mines will be incentivised to be developed in the near to medium term. Expanding eligibility to include midstream lithium production is therefore unlikely to add to the proponents seeking to utilise the CMPTI but rather encourage those with an interest in moving further downstream to look closely at investing in Australia as a viable option in their decision-making.

Definition of an eligible output

Setting purity levels above accepted commercially traded products could have the unintended consequence of hindering downstream processing in Australia. For example, setting the eligible output to lithium carbonate or hydroxide at 99.9% purity on mass is arbitrarily high and represents the extreme end of the 'battery grade' value chain.

Achieving 'battery-grade' purity levels at commercial scale is exceedingly challenging, which is reinforced by the fact that no lithium hydroxide facilities outside China to date has achieved steady-state commercial production. The CMPTI should therefore support investment in critical mineral outputs which are practically achievable, as guided by customer requirements which continue to evolve.

It's important to ensure the definitions set for eligible outputs are set in-line within the globally accepted parameters with respect to tradeable commodities. If critical mineral is processed to an accepted quality for commercial trade, it is recommended that product should be deemed eligible under the CMPTI.

It is considered more appropriate to link eligibility to internationally standardised system for eligible outputs. Systems such as the CAS (Chemical Abstracts Services Registry Number) or HS Code (Harmonized System Code) are well established codes for commercially traded products that are recognised globally by industry.

Harmonised codes have several advantages:

- standardisation and clarity,
- trade facilitation around customs procedures,
- data collection and analysis; and
- allow for better policy alignment when dealing with international jurisdictions

Such codes classify products based on specific characteristics and intended use, and there is precedent for them being applied for legislative purposes. For example, we understand the United Kingdom utilise HS or CAS codes in



specific legislation. Applicable codes could be made compatible with the CMPTI under Australian legislation and be cleanly applicable and transparent for tax purposes.

Including an additional requirement for products to be subject to sample testing by Geoscience Australia, as proposed in the consultation paper, is considered unnecessary and risks introducing uncertainty.

Government should continue to work with industry on a mineral-by-mineral basis to ensure eligibility is appropriately applied to be responsive to evolving product requirements and in turn maximise the value-adding potential of Australia's critical minerals. The lithium market, in particular, remains opaque and technology continues to rapidly evolve. Ensuring the policy has the flexibility to move with these trends will be critical to its success. Industry bodies such as AMEC are well placed to work with policy makers to ensure eligible outputs are appropriately defined and can adapt to the advances in the critical mineral space.

Conclusion

Liontown is the world's next major lithium producer and a proud Australian company who supports expanding domestic capability in critical mineral processing. A well-designed scheme among a suite of measures can be effective in encouraging further value-adding investment in Australia, while maintaining a core focus on supporting the local critical minerals sector to be globally competitive.

If Treasury wish to discuss Liontown's position further, please contact our Principal, Government Advocacy and Policy, Jared Newton, at jnewton@ltresources.com.au or +61 401 165 593.

Yours sincerely



Tony Ottaviano
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