

12 July 2024

**Dr Steven Kennedy**  
**Secretary to the Australian Treasury**  
**The Treasury**

Dear Dr Kennedy,

### **Hydrogen Production Tax Incentive – Consultation Paper**

A proudly Australian company with balance sheet strength, Fortescue is a global leader in large-scale, ultra-efficient and highly complex developments with a proven track record in developing and operating assets in remote and isolated locations. Fortescue has a strong focus on decarbonisation, evidenced by its industry leading target to achieve real-zero carbon emissions across our terrestrial mining operations by 2030. Through our business unit, Fortescue Energy, we are establishing a global portfolio of renewable energy, green hydrogen and derivatives, battery system and green technology projects and operations that are at the forefront of the global energy transition.

Fortescue welcomes the opportunity to provide comment on the *Hydrogen Production Tax Incentive Consultation Paper*. The introduction of the Hydrogen Production Tax Incentive (HPTI) is a watershed moment for the development of Australia's green hydrogen industry. We believe the HPTI, as a key element of the government's *Future Made in Australia* plan, will be critical to catalysing the deployment of commercial scale green hydrogen projects. This will in turn catalyse the growth in domestic industries, manufacturing and jobs of a decarbonised economy and secure our nation's global exports in commodities such as iron ore and bauxite/alumina and future opportunities in green iron and green aluminium. If the overarching objective of the HPTI is to support early and commercial scale production of renewable hydrogen to help decarbonise Australia's economy, then the HPTI legislation and regulations must support attracting significant amounts of capital as soon as possible, building projects and maximising production at lowest cost as possible, while maintaining a green premium. Our submission supports these principles.

### **Timing**

The HPTI provides a significant incentive for entities to make investment decisions for projects ahead of 30 June 2030 to maximise their window to receive the production incentive before it ceases in 2040. The design of the HPTI intends to incentivise and support large-scale project growth for the domestic and export markets to develop a new export industry for Australia. Fortescue is concerned that the proposed timings, aimed to incentivise size and pace, may not reach the full potential of the HPTI program due to its aggressive time restrictions.



Fortescue recommends that the expiry date for projects eligible to claim the HPTI is extended to 30 June 2035, with the ability to claim 10-years of HPTI, meaning the scheme would end in 2045 for those projects. To provide a strong enough incentive for a large-scale project (500MW+) to invest, the proponent must have confidence they can maximise the 10-year claiming window. For projects of this scale, there is a significant approvals, development, construction and commissioning lead time that must be considered. Detailed design of the project and approvals processes may take several years before a Final Investment Decision (FID) is made and the following approvals and construction phase for renewable energy and electrolysis projects may take up to 5-years to complete. Assuming there are no delays to the project, the opportunity to maximise the 10-year HPTI window will already be difficult with the current proposed timing. Adopting 30 June 2035 will retain an incentive for projects to accelerate in Australia without sacrificing large-scale opportunities in favour of smaller (and oftentimes higher risk) projects designed to capture maximum HPTI value.

Should the current scheme expiry of 30 June 2040 be maintained, we recommend proponents should be rewarded with an additional claiming portion to the maximum 10-years for being early movers. This should provide an incentive to developers to invest in projects that could begin operation before 30 June 2030. For example, if a proponent invests early and delivers a project in 2028, they should be rewarded with a 12-year claiming window to 2040, as they will be taking greater investment risk. Early mover renewable hydrogen projects are likely to face higher electricity prices and weaker offtake demand as domestic and international markets are developed. These early mover projects are also important to establish new domestic offtake markets and enable early movers in other sectors, such as air, land and sea transport.

Fortescue also strongly supports the HPTI remaining an uncapped incentive.

### **Indexing to inflation**

Treasury proposes that the HPTI would not be indexed over time to inflation. Fortescue urges Treasury to reconsider this decision as it will result in a considerable decrease over time in the value of the HPTI, weakening the investment signal for projects in Australia. A lack of inflation adjustment for the HPTI means the real value of the tax offset will have declined more than 10 per cent by the time the HPTI comes into effect, and by around a third by the time it expires<sup>1</sup>. The inflation adjustment of US support program will mean both a growing nominal and real level of support relative to Australia.

### **Additionality and temporality**

Fortescue strongly supports the Treasury's proposed positions to not require renewable energy additionality and temporal correlation between renewable energy production and hydrogen production. This is a pragmatic decision recognising the achievement in renewable energy rollout to date in Australia and its growth over the period of the HPTI implementation. When Australia reaches its renewable energy targets by or before 2030, these concepts will not be necessary to protect against increased grid emissions

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<sup>1</sup> Based on Commonwealth Budget 2024-25 CPI inflation forecasts.



because of unoptimized hydrogen operations. Most hydrogen produced with the HPTI will occur beyond when requirements such as additionality and temporal correlation would be necessary.

The difficulty the US is experiencing in designing and implementing its '45V' regulations for its Inflation Reduction Act represents an opportunity for Australia to catch up in the race to capture capital and market share and maintaining pragmatism with additionality and temporal correlation is vital.

### **Administration, community benefits and engagement**

Fortescue recommends that, as far as practicable, the processes for companies to claim the HPTI through the taxation system should be aligned to existing taxation claim processes of other tax incentives, to minimise complexity and maximise efficiency. Creating a new administrative burden for companies will be cumbersome and inefficient. Fortescue believes that aligning to tax incentive claim regulations and processes like what is in place for the *Research and Development Tax Incentive* provides Treasury with a model that could be adopted for the HPTI claim process and is known and accepted by industry.

Similarly, infrastructure and renewable energy projects are either required through regulation and law or via industry standards, to provide numerous community benefits, local content and First Nations' engagement requirements that ensures industry acts support broader benefits while developing long-lead time, large-scale projects in Australia. Should Treasury seek to mandate additional steps for industry, we recommend it seeks to add to existing requirements and not duplicate. Further, it is unclear how Treasury will assure itself of compliance of HPTI conditions through the taxation system. Additional detail from Treasury on how it will do this is required before further commentary can be provided – but current processes it has with other agencies such as with *AusIndustry* in the Department of Industry, Science and Resources are worthy of consideration.

Thank you for the opportunity to comment, Detailed responses to the consultation paper are provided in the attached appendix. If you would like to discuss any of the issues raised in this submission or to arrange a briefing, please contact [tom.parkinson@fortescue.com](mailto:tom.parkinson@fortescue.com).

Yours sincerely

Bronwyn Grieve

**Head of Global Sustainability**



## **APPENDIX 1 – DETAILED ANSWERS TO CONSULTATION QUESTIONS**

### **1. Please provide any feedback on the impact this incentive may have on your community, facility or industry.**

The introduction of the A\$2/kg HPTI will have a material impact on industry viability and ability to attract third party financing for projects in Australia and reduce the green premium on green hydrogen when competing in markets currently dominated by fossil fuel alternatives. The commercial returns of these projects for investors will remain difficult in the short to medium term until Australia can significantly increase its renewable energy availability and power prices begin to ease. The price of electricity is the single greatest contributor to the delivered price of green hydrogen and downstream products like green ammonia, green iron and e-sustainable aviation fuels (eSAF) in Australia. Fortescue strongly supports the HPTI remaining an uncapped incentive scheme.

Fortescue's internal preliminary economic screening suggests that the HPTI may result in an approximate 2.5% uplift in project internal rate of return (IRR) for large-scale green hydrogen projects in Australia. This analysis demonstrates that the HPTI provides a material uplift in project financing prospects providing stronger confidence in the investment case for these projects. However, without medium to long-term reductions in renewable electricity costs it will remain difficult to build a strong investment case for a large-scale multi-billion-dollar green hydrogen project. Further, this demonstrates that the HPTI alone will not support the industry to scale at the pace required for Australia to achieve its renewable energy superpower goals. State and territory governments, and other Commonwealth agencies like the Australian Renewable Energy Agency (ARENA) must continue their renewable energy and green hydrogen policy platforms and ensure they complement and stack these supporting policies with the HPTI.

### **2. Please provide any feedback on the proposed eligibility criteria.**

As commented above, Fortescue suggests that a deeper incentive is established for first mover projects that invest ahead of the 30 June 2030 deadline. These projects should receive the full-time window before 2040 as their claiming window meaning some projects may receive up to 13 years of HPTI, strengthening the incentive for first movers.

If proponents are limited to claiming the HPTI for a 10-year operational period, then those that begin operation before 2030 should be able to nominate the commencement date for that 10-year claiming period. It would be inefficient for this period to begin when the project begins operation as it may operate well below nameplate production for a period before 2030 due to facility scale up and/or testing. Allowing projects to nominate the beginning of their 10-year window will allow projects to maximise the HPTI, delivering cheaper green hydrogen to Australia.

### **3. What key factors would need to be accounted for in a definition of an eligible facility for the purposes of the HPTI?**



What is listed in the consultation paper is appropriate. Fortescue supports no limitations on the end use of hydrogen production as this would limit potential decarbonisation options and stifle domestic demand development. The Commonwealth should consider possible demand stimulation policy mechanisms once the HPTI has been implemented, considering sectors that are targeted for near-term decarbonisation using hydrogen through the six sectoral emission reduction plans currently under development by the Commonwealth Departments.

#### **4. What key factors would need to be accounted for in a definition of Final Investment Decision (FID) for the purposes of the HPTI?**

It is unclear to Fortescue what benefit is provided to the scheme frameworks by including a definition of a Final Investment Decision (FID) as part of the eligibility criteria for access to the HPTI. Given that the HPTI is paid to projects upon production of hydrogen, we suggest that when the project undertook a FID is irrelevant. The incentive to move at pace is maintained by the need to produce hydrogen to begin claiming the HPTI and requiring FIDs to be taken by a certain date may just result in a rush in project decision making with no material change in product delivery.

#### **5. How long do you expect it will take for projects to reach first production following FID?**

The delivery of projects from FID to first production will be varied across the scale and location of projects. Fortescue considers that larger projects will require extensive renewable power development, new ports, transmission and other services to be constructed and could require 60 months or more to reach first production.

#### **6. For foreign investors, do you currently encounter any impediments to investment in projects that would be eligible?**

Fortescue suggests that foreign investors should not be disqualified from investing in projects and receiving the HPTI provided projects apply and are approved under Australia's foreign investment framework.

#### **7. Please provide any feedback on the proposed emissions intensity threshold of 0.6kg of carbon dioxide equivalent up to the production gate.**

Fortescue is developing green hydrogen projects for which there are expected to be near zero emissions associated with the project. A strict emissions threshold is required to ensure that projects that may conflict with Australia's short and long-term emissions reduction targets and strategies are not supported with public funding. Fortescue agrees with The Treasury expectation that most hydrogen production in Australia will be via renewable energy with electrolysis and strongly supports the proposed emissions threshold.

To support the threshold, the Clean Energy Regulator (CER) Guarantee of Origin (GO) scheme must be legislated. The detailed policy development and technical design for this scheme has been through a thorough and robust process with deep industry consultation, which Fortescue engaged with and supported. However, the development of the scheme has been subject to delays as the policy detail has



been worked through. The legislations passage through parliament must be a priority for this term of Government to ensure its success and continued development of downstream products such as ammonia and green iron in time for the HPTI scheme to begin operation in 2027.

**8. Other than electrolysis, what production processes would meet this emissions intensity threshold now or before 2030?**

It is unlikely that other technologies will be able to meet this emissions intensity threshold now and in the future without significant technical advancements in carbon capture and storage technology. Further, the permanent geological (or other) sequestration of carbon from fossil fuel-based hydrogen projects creates a carbon liability that must be managed by either the Government or the proponent to ensure that this carbon remains permanently stored away from entering the atmosphere.

**9. Please provide feedback on the proposed minimum capacity requirement (equivalent to 10 MW electrolyser)?**

Fortescue considers the 10MW capacity requirement to be appropriate as it will incentivise industry to prioritise scaled projects for domestic and export supply. Further guidance from Treasury as to the rationale for why 10MW was the appropriate capacity would be welcomed.

Treasury should consider the impact of this capacity floor in conjunction with the 2030 timeline for FID decisions as this may result in staged projects taking a stage 1 FID of 10.01MW with the second stage possibly being far bigger in attempts to ensure the project is eligible for the HPTI. This may be acceptable to Treasury due to the HPTI being paid on production. If this is the case the final rules for the scheme should make this clear to industry to avoid confusion.

**10. For renewable production processes other than electrolysis, is using the minimum capacity requirement of “equivalent to a 10MW electrolyser” appropriate? Is another definition of capacity required to deal with other production pathways?**

No response.

**11. Should grid connected electrolyser projects be required to match their hydrogen production with electricity generated by the same electricity grid? Please provide feedback on this proposal.**

Yes. While we consider it appropriate that there are no mandatory additionality or temporality requirements, the HPTI should mandate ‘same grid’ colocation so that electricity procured for green hydrogen production is connected to the same network as the renewable energy generator. It is not possible to physically control electron flow through an electricity network, however it is reasonable to expect the electricity is provided to the same grid as the project. For example, a green hydrogen project connected to the National Electricity Market (NEM) should not be allowed to purchase grid electricity while sourcing Large Scale Generation certificates (LGCs) from the Wholesale Electricity Market (WEM), or vice versa. Green hydrogen producers may commit to this voluntarily, but we suggest that the HPTI require it.



## **12. Please provide feedback on the proposal to not include additional requirements on renewable energy generation for access to the incentive, such as additionality and hourly time-matching with hydrogen production.**

Fortescue strongly support both positions.

### Additionality

Giving the timing of the incentive scheme and the expected renewable energy growth across Australia's grids requiring strict additionality would be an unnecessary burden to place on projects given the HPTI is intending to incentivise early project development to leverage Australia's natural advantages in renewable energy. Additionality requirements are required in jurisdictions with low current and projected renewable energy growth to protect against unintended emission increases. This is of lesser concern in Australia due to our ongoing rollout of renewable energy. Most hydrogen volumes supported by the HPTI will be delivered after 2030 where Australia's major electricity grid, the NEM, will have reached at least 82% renewables and will at many times throughout the day operate at near 100% renewable energy requiring additional load to prevent generation curtailment.

### Temporality

A strict temporality requirement is not required on grids that are rapidly transitioning away from fossil fuel usage for bulk energy production, like Australia's. Hourly matching provides a significant commercial challenge to the feasibility of green hydrogen production. Analysis by Wood Mackenzie found if hourly matching were implemented, the resulting hydrogen could be 60 to 175 percent more expensive than annual matching<sup>2</sup>. Fortescue's internal data suggest that an hourly matching requirement would increase the cost at an 80MW green hydrogen facility between 140-200%.

Recognizing the intermittent nature of renewable power, a facility would need to implement a combination of the following to remain eligible for the HPTI should time matching be required, significantly increasing the price of green hydrogen and limiting demand:

- Reduce utilization of the facility and increase maintenance costs through increased ramping
- Contract excess renewable power
- Install and utilise expensive onsite battery storage

Should there be significant investment in battery technology for a project, uncertainty would remain regarding how to account for power that is transmitted to the storage units and then consumed later. This

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<sup>2</sup> Wood Mackenzie, *Implications of 45V Guidance for the Future of the Green Hydrogen Industry*, February 2024, available at [Implications of 45V Guidance for the Future of the Green Hydrogen Industry | ACP \(cleanpower.org\)](https://www.cleanpower.org/implications-of-45v-guidance-for-the-future-of-the-green-hydrogen-industry)  
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would require further consideration by the GO and Renewable Energy Guarantee of Origin (REGO) scheme.

Fortescue strongly supports the Treasury's proposed positions on additionality and temporality and urges the retention of this position in the final scheme design.

**13. Please provide any feedback on the proposed administrative approach.**

Fortescue suggests that, as far as practicable, the processes for companies claiming the HPTI through the taxation system leverage and/or duplicate existing taxation arrangements to minimise complexity. Creating a new administrative burden for companies that may exist for up to 10-years when it may not be required would be inefficient. Fortescue suggests there are models that are already in place such as the *Research and Development Tax Incentive* that may provide Treasury with a model that could be adopted to ensure the HPTI claim process is as simple as possible for industry.

**14. The proposed GO scheme will be used to support the registration and verification of hydrogen production. Are there any additional factors that would need to be accounted for in the proposed design of that scheme?**

No.

**15. The Government may legislate the administrative arrangements in subordinate legislation. Please provide any feedback on this proposed approach.**

This is appropriate. Treasury may want to conduct periodic reviews of the administrative arrangements to ensure the HPTI remains efficient in its operation.

**16. What obligations should be imposed on potential recipients of the HPTI to ensure the community benefit principles are met?**

Fortescue expects most companies entering the green hydrogen sector to have experience in large-scale infrastructure projects across mining, energy or similar sectors. Therefore, they should bring a mature approach and best practice levels of community engagement and benefit to their projects. In the Hydrogen sector this would equate to gH2 (Green Hydrogen Organisation) Standard on Community Engagement and Transparency and relevant Federal and State prescribed actions and reporting on stakeholder and community engagement. In response to questions 16, 17, and 18 we offer the following comments and summaries of our experiences and internal expectations for delivering in these areas in our current operations.

**Transparency, uniformity and portability of social licence requirements across Australian jurisdictions**



The Future Made in Australia Community Benefit Principles will be an opportunity to realign engagement targets or reporting requirements for proponents, and we look forward to further consultation.

Awareness and co-ordination of jurisdictional frameworks and engagement requirements across local, regional, renewable energy zones, State and Federal levels will support community participation and streamline engagement.

Predictability of requirements gives proponents clarity on benchmarks and timeframes for engagement at project concept, development, construction, operations and decommissioning stages of the project lifecycle.

We would urge that current reporting obligations are used to satisfy FMIA benchmarks, and note the Fortescue currently prepares documentation or reports to Federal and/or State level on:

- Community Engagement: Stakeholder Engagement Plans, Social Impact Assessments and Management Plans, Community Investment Plans.
- Indigenous Engagement: Free Prior and Informed Consent, Cultural Heritage Management Plans, Heritage Protection Agreements, Indigenous Land Use Agreements and Shared Benefits agreements.
- Procurement: Industry Participation Plans and Local Content Plans.

Please see below for an expanded explanation of Fortescue's principles in these areas.

The FMIA is an opportunity to consult with communities who host renewables and manufacturing infrastructure on how to better streamline information from Government and proponents. We believe co-ordination of planning and approvals processes and engagement with community across related industries such as wind, solar, energy storage, transmission and related infrastructure such as pipelines and ports, could assist to prevent stakeholder fatigue. We are liaising with cross-industry bodies on the implementation of the 2023 AEIC recommendations.

An example would be funding models that pool community investment by proponents, (e.g. Voluntary Planning Agreements with Councils in NSW informed by CAPEX). Co-ordination or central administration of funding can have greater impact for communities and ensure fit-for-purpose proponent contributions based on project size. It is critical for local Government to consult and report transparently on these arrangements to ensure communities retain visibility over investment.

### **Fortescue's Ongoing Community and First Nations Consultation**

Fortescue actively seeks relationships with local organisations to co-create shared benefits with Communities and First Nations People. This includes ongoing engagement with local councils, business chambers, project neighbours and community representatives to share project information, address community concerns, and improve engagement and communication. Our plans are tailored to community priorities and include direct community benefits (such as sponsorships and donations), green energy



education materials, business and employment capability development, equity and shared prosperity pathways, and other commercial arrangements to ensure the benefits of any Project are shared. As part of any engagement with communities, Fortescue seeks to include:

- Timely and transparent access to project information.
- Community decision making and Free Prior and Informed Consent (FPIC).
- Capacity building and support.
- A clear and accessible grievance mechanism.
- The development of business, employment and training community benefits.

Fortescue's approach to **cultural heritage** includes engagement of a suitably qualified person to prepare or monitor Cultural heritage assessment reports and plans. This is consistent with all relevant state and Commonwealth policies.

- Aboriginal Cultural Heritage Consultation Requirements for Proponents (DECCW, 2010).
- Code of Practice for the Archaeological Investigation of Aboriginal Objects in NSW (DECCW, 2010).
- National Parks and Wildlife Act 1974.
- National Parks and Wildlife Regulation 2019.

### **Procurement and local content**

Using local content and suppliers to create regional benefits and jobs is a key focus for Fortescue. A specialised local content teamwork with procurement and projects to break down and promote scopes of work that are feasible for small and local business participation, and a Local Content Strategy is developed to engage with local businesses and promote the opportunities. Fortescue's plans are developed in line with benchmark requirements set out under Commonwealth or equivalent State Australian Industry Participation.

Relationships with Local Government, local chambers of commerce and other peak industry bodies inform local content strategies and maximise local industry participation. Fortescue's contractors are required to adopt a proactive policy with respect to employment of local people and engagement of local enterprises. In accordance with Fortescue's Contracting and Procurement strategy, the contractor tender evaluation process includes a weighting for local content. For example, in FY22, 3,158 Tier 1 suppliers were engaged with a total contestable spend of \$8.7 billion (GST inclusive), with over 94% spent on Australian businesses and entities.

### **First Nations Procurement Opportunities**



Fortescue has extensive experience and outstanding success in First Nations procurement and employment pathways. Since 2006, A\$4.6 billion in contracts has been awarded to over 190 First Nations businesses. In FY22 alone, A\$452 million worth of goods and services were purchased from First Nations businesses. Nearly 90% of this spend was with local businesses owned by Traditional Custodian partners and their members. Thirty-two contracts were also awarded or extended to a value of A\$513 million to First Nations businesses. Fortescue Energy has a target of A\$1 billion by 2030, and Indigenous procurement is a measurable deliverable across all projects.

This strong result is due to our First Nations Business Development program, which involves:

- Providing opportunities for First Nations businesses based on their level of capacity and capability.
- Building the capability and capacity of First Nations businesses to ensure they remain sustainable.
- Creating a companywide approach to engaging and mentoring First Nations businesses, including setting First Nations procurement targets and key performance indicators for internal procurement leaders.
- Using well established and embedded procurement processes to ensure First Nations engagement is part of tender evaluation.
- Establishing joint ventures that provide an opportunity for First Nations businesses to partner with established contractors to help build their capabilities, before securing contracts as majority owned businesses.

The company is proud to be one of Australia's largest employers of First Nations people, directly employing 1,113 First Nations people, representing 10% of the company's Australian workforce and 4% of leadership positions. Fortescue also has tailored programs to develop First Nations people.

The long-running Vocational Training and Employment Centre Program upskills pools of undeveloped talent through a unique program which guarantees a job after training.

**17. What obligations are potential recipients of the HPTI currently subject to that might support the community benefit objectives (noting these will be finalised under the Future Made in Australia Act)?**

See response in question 16.

**18. Are there any additional objectives that you consider important? What obligations might support these?**

See response in question 16.



**19. Recipients of the HPTI may be subject to additional transparency and disclosure requirements in order to be eligible. What kind of requirements are appropriate? What are the key practical considerations to take into account when setting the requirements?**

Public multinational groups like Fortescue are already subject to a wide range of voluntary and mandatory tax transparency and disclosure requirements, such as Public Reporting of Tax Information and Public CbCR. Further requirements on such companies may be unnecessary and Fortescue suggests that private recipients of the HPTI that otherwise aren't subject to such obligations be required to comply with the same requirements to receive the HPTI.

**20. How should entities proposing to claim the HPTI be required to demonstrate compliance with tax obligations?**

Statement of Tax Record obtained from the ATO as these are used for government tendering.

**21. What information do you consider important for the community that should be reported publicly on the recipients of the HPTI such as the amount of credit received?**

No response.

**22. Who should the reporting requirements be imposed on? For example, on the recipient entity, or central reporting through a regulator?**

No response.

**23. Please provide feedback on the proposed treatment of the interactions between the HPTI and other forms of Commonwealth, State or foreign government support.**

The HPTI is proposed to be offered as a refundable tax offset, like the Federal Government's R&D Tax Incentive (RDTI) program, but the eligibility criteria between the two programs are very different. Projects eligible for the RDTI are generally not impacted by state or federal government support. Activities that result in HPTI would not be deemed eligible to be claimed under the RDTI.

**24. How can the HPTI best leverage other types of support? Please provide examples relevant to your project if possible.**

As discussed above, the commercial returns for green hydrogen projects will remain extremely tight while electricity prices remain high in Australia. This is expected to persist for some time as demand is also predicted to grow for renewable energy as other sectors seek to decarbonise through electrification or via green products like green hydrogen.

Fortescue strongly suggests that the HPTI is stackable with other current and future incentives available at the state and Commonwealth Government level. This will be necessary to support a variety of projects



across the country working through many challenges in establishing this nascent sector. Further, the HPTI should also complement any future downstream demand stimulus in industries that will require green hydrogen as a feedstock, like ammonia and sustainable aviation fuel production or a fuel such as green iron.

**25. What are the key practical considerations with receiving support through the HPTI and the Hydrogen Headstart program simultaneously?**

Fortescue accepts that the HPTI will be provided to all projects that produce volumes of hydrogen in Australia and that it is difficult to add nuance to the taxation system to vary this. As such, Hydrogen Headstart contracts will need to be flexible in order to reduce payments received by the exact amount of the HPTI provided to the project to prevent double dipping. It may be necessary for Hydrogen Headstart to provide additional funding to projects, particularly those aimed at downstream liquid fuel production like eSAF or green iron processing where there are additional costs to the green hydrogen production.

**26. Are there specific interactions with other support programs that should be considered?**

In addition to the response offered in question 24 we offer the following comments.

Green iron

To ensure Australia is best placed to take advantage of the opportunity to establish a green iron industry (and not lose this opportunity to competing jurisdictions), Fortescue recommends the Australian Government supports the first commercial scale green iron plant in the Pilbara with a grant. This first commercial scale plant will demonstrate the technology path to produce green iron from Pilbara haematite at scale and build momentum and demand for the product which will in turn drive more investment in production capacity.

Grants (contribution towards capital investment) are upfront and once agreed, will provide a level of certainty to the high-risk first green iron plant. Fortescue is currently seeking a grant towards the capital cost of its first 1-2Mtpa commercial scale green iron plant.

Once that critical first Pilbara commercial scale green iron plant is established and selling product, with the right policy settings, other iron ore miners will be encouraged to invest. A production tax credit, while not an upfront payment which can be used towards the capital cost, can de-risk the project and incentivise private investment. A green iron production tax credit must be stackable for green iron projects that use green hydrogen as an input to improve the economic case for development.

Similarly, “contracts for difference” also essentially level the playing field for the new entrant (without introducing operational complacency, as they only cover a specific “gap”). Both public funding investment incentives are deferred incentives and do not provide early relief on capital investment. They are better



suited to sustaining growth in the emerging industry which follows the first critical investment in a commercial scale plant.

### ARENA

Fortescue recommends that ARENA funding be allowed to be sought by projects that will be eligible for the HPTI once operational. Current ARENA funding targeted to the green hydrogen sector is necessary to support innovative projects as they seek to mature their technology. Further, the recently announced Made in Australia Innovation Fund will provide much needed support to downstream sectors adjacent to the hydrogen industry, like green iron processing. Both ARENA grant funding and the HPTI will be necessary to achieve commercialisation of these technologies.