



25 July 2024

Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Re: Future Made in Australia Bill 2024 [Provisions] and the Future Made in Australia (Omnibus Amendments No. 1) Bill 2024 [Provisions]

Liontown Resources (Liontown or the Company) welcomes the opportunity to provide feedback to the Senate Economics Legislation Committee inquiry into *Future Made in Australia Bill 2024 [Provisions] and the Future Made in Australia (Omnibus Amendments No. 1) Bill 2024 [Provisions]* (the Bill).

Our submission is offered from the perspective of an emerging Australian lithium producer, who has delivered the world's next major greenfield lithium mine from discovery to production in just six years, compared to the global average delivery time of 16 to 18 years¹. The timely delivery of Liontown's flagship Kathleen Valley Project Lithium-Tantalum Project (Kathleen Valley or the Project) has been achieved against a challenging operating environment, bookend by global pandemic, supply chain and labour challenges, as well as volatile trade and market dynamics. Despite these headwinds, Liontown has persevered and retained a long-term strategy to achieve the full potential from Kathleen Valley and explore the potential to maximise value of our resource through downstream processing. With this context, we are a sound test-case to assist policymakers to develop an effective Future Made in Australia framework.

Throughout our submission we've highlighted in bold our recommendations to be considered by the Committee.

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 Project located in the northern Goldfields of Western Australia, approximately 700 kilometres 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, Tesla and Ford Motor Company, and will supply these customers with 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. The Company has also reserved a small proportion (~10%) surplus product for spot sales or opportunistic offtakes with converters, who are predominately located in China.

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

Policy Intent

¹ S&P Global Analysis: *Discovery to Production Averages 15.7 years for 127 mines, 2023.*



Overarching theme

Liontown has consistently advocated in support of the Australian Government's *Critical Minerals Strategy* and is supportive of the intent of the *Future Made in Australia* agenda to expand sovereign capability in critical minerals processing in Australia. A core theme of the *Critical Minerals Strategy* to be reinforced is "*Australia's critical minerals sector can be more than just a trusted and reliable supplier of raw materials*".²

Australia is blessed with a resource-rich geological endowment, including the 31 critical minerals as currently defined in the *Strategy*. Australia has worked hard to establish our track record as a reliable and respected global commodity supplier, and specifically as the global leader in upstream hard rock lithium production. Extracting more value onshore from Australia's resources is a shared goal of government and industry. However, Australia does not enjoy consummate advantages in downstream processing, and is at a relative disadvantage given the market concentration of established critical mineral processing capacity in China and intense competition for new capital investment in allied jurisdictions to diversify secure supply chains beyond a single country.

Liontown has made a strategic decision to partner with allied jurisdictions by progressing downstream feasibility studies with LG Energy Solution and Sumitomo Corporation. These studies will explore the viability and potential value to captured from vertically integrating upstream spodumene production from Kathleen Valley with 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.

That said, it is currently not attractive to pursue downstream opportunities in Australia. This is due to the significant cost and technological efficiencies that embedded in the Chinese processing complex, and with reference to the unprecedented investment incentives on offer by other sovereign governments to build diversified capacity to counter this market concentration - led by the United States' Inflation Reduction Act (IRA) and quickly adopted by other allied jurisdictions - that range from generous upfront grants, capital rebates, to production tax relief and discounted access to land and infrastructure.

The Australian Government cannot match the breadth of these investment incentives 'dollar for dollar' and should seek to leverage areas of comparable advantage – which begins with upstream production – to, in turn, identify opportunities to support incremental expansion and further value-add onshore where we can compete in future. If Australia is to be successful in attracting onshore investment further downstream, the government, industry and commercial financiers need to retain a long-term view that sees through the short-term risks and inherent volatility of commodity cycles, particularly in emerging markets like lithium which is immature, opaque and not yet commoditised.

The measures applied by Government under Future Made in Australia should assess sovereign competitiveness and opportunities to expand capacity that leverage our strengths, applying a long-term view on future value and remaining flexible to changing circumstances that arise from volatile commodity markets

National Interest Framework and Sector Assessments

A guiding principle for policymakers should be to apply the National Interest Framework and Sector Assessments that consider the supply chain in its entirety - from upstream producers right through to the end of the downstream, and be open to periodic reviews to ensure they remain fit for purpose as the market matures and evolves.

² Critical Minerals Strategy 2023-2030, June 2023, p.21.

Australia's greatest strength lies as an upstream commodity producer. Ensuring the fundamentals in Australia's upstream industry remain competitive is essential to securing available feedstock to feed potential downstream opportunities – now and into the future.

In this regard, the streams identified in the National Interest Framework – the 'net zero transformation' stream and 'economic resilience' stream – are appropriately framed and outline areas where support will be directed.

A clear, transparent framework for how Sector Assessment will be scoped, assessed and consulted on, and what triggers will apply for reassessments, will be critical to the success of the policy.

Sector Assessments need to assess priority supply chains in their entirety - including areas of current comparative advantage like upstream raw material production and measures to ensure it can remain competitive, as a necessary prerequisite to exploring opportunities to add further value downstream.

For example, a detailed Sector Assessment in lithium would identify that there is not a surplus of spodumene production in Australia to supply new domestic downstream processing capacity (should it be built). Furthermore, current lithium prices are insufficient to induce new project expansions and additional volumes to 'feed' downstream processing for the foreseeable future – despite the global outlook for lithium demand remaining strong over the medium-to-long term. Simply put, without the requisite feedstock, it will not be possible to expand the domestic supply chain downstream.

While the Future Made in Australia looks to focus on supply chain resilience onshore, it also acknowledges supply chain capacity and diversity in other like-minded allied jurisdictions. As our capability and knowledge continues to evolve, it's important that Government – via the Sector Assessments inclusive of global supply chain mapping - provides clear direction on which capabilities along the critical mineral value chain are best pursued offshore, so industry and financiers can adapt and focus collective efforts accordingly.

Sector Assessments should incorporate detailed supply chain mapping to identify where other allied jurisdictions are better placed than Australia in certain critical minerals and relevant points in the value chain, and in turn be transparent about the areas where the Australian Government will not dedicate taxpayer support.

Outside the framework architecture, improving existing programs and agencies to work more effectively under the Future Made in Australia umbrella will deliver greater efficiency and outcomes. It is essential that standalone policies like the Critical Mineral Production Tax Incentive – which Liontown supports – are not delivered in isolation, rather that they be complemented by policy interventions which improve Australia's competitiveness as a whole – to invest and do business in.

Governments – federal and state – must continue to actively collaborate to ensure efficient and globally competitive settings across regulatory and fiscal policy. For example, facilitating ease of access to skilled labour as well as 'shovel-ready' industrial land along with access to requisite headworks including gas, power and water. Industry associations presenting the resources sector have consistently made the point that Australia lags behind other 'like-minded' jurisdictions in these key areas.

The Future Made in Australia agenda needs to be leveraged as a whole-of-government initiative to meaningfully improve competitiveness to attract new investment and streamline the ease of doing business, in context of continued inflation in cost and compliance.

Regarding the attraction of new investment into Australia, we welcome references to Export Finance Australia (EFA) and its central role aligned with the National Interest Framework.

Liontown has had extensive experience working with EFA under its long-standing commercial mandate, as distinct from their role in administering dedicated 'national Interest' accounts like the Critical Minerals Facility.

Whilst our company's experience of EFA is as a collaborative and solution-focused agency, their current mandate – a defined under the 'statement of expectations' set by the (then) Minister in 2020³ – is unnecessarily restricting the agency from proactively supporting the delivery of objectives aligned with the Future Made in Australia agenda.

As background, in 2022, EFA provided Liontown with a cash-back guarantee to support the execution of 95 Megawatt (MW) hybrid renewable power station that is sole-source for Kathleen Valley. EFA also collaborating with international Export Credit Agencies (ECAs) and the Clean Energy Finance Corporation on possible debt funding solutions designed to support delivery of Liontown's Kathleen Valley Project into production and positive cashflows.

For example, in October 2023, Liontown secured a \$760 million debt finance package with a syndicate of six commercial bank and government lenders, including the EFA (under their commercial account) and Clean Energy Finance Corporation (CEFC). The funding package was the first of its kind in funding a new lithium project in Australia, and came at a crucial phase of the Project's construction – at around the mid-point of delivering the \$951 million project and employing over 1000 construction personnel on-site at Kathleen Valley.

Unfortunately, the financial security was short lived and prior to the finance being secured, a cyclical downturn in the spodumene market saw prices contract by 60 per cent and ultimately resulted in the funding packaged being withdrawn in January 2024. The mandate of EFA (and CEFC) requires them to act commercially and not act independent of the commercial banks, therefore their support was withdrawn along with the commercial banks.

This left Liontown to find an alternative solution at a depressed point in the market cycle, while continuing to employ thousands of local workers and businesses in the delivery of the Project. While the commercial and government banks did seek to work pragmatically with Liontown over coming months to execute an alternative debt funding solution – it was for substantially less funding and over a shorter tenure. Ultimately, in July 2023, Liontown secured a superior outcome through an expansion of its strategic partnership with LG Energy Solution, a foundation customer of Liontown's and one of the world's largest battery manufacturers.

Liontown experience with government lending agencies demonstrates a clear gap in the Government framework for supporting critical minerals projects seeking to obtain finance in Australia. Funding for Kathleen Valley was effectively deemed to fall outside the mandate parameters of both the commercial accounts of EFA (and CEFC) and the \$4 million Critical Minerals Facility (or 'national interest account'), which to date has not funded a single lithium project. EFA's mandate specifically stipulated that it cannot 'crowd-out' commercial lenders and must identify a "demonstrated gap in the availability of finance" before "carefully reviewing" support for resources project. In practice, this means no matter how proactive and solution-focused EFA acts, they are restricted to act last and follow the lead – and risk appetite – of commercial lenders.

The current statement of expectations is demonstrably not effective in supporting critical mineral projects in volatile and immature markets like lithium. In these market conditions, it is also clear that commercial lenders are not yet ready to provide long-term finance and there is a 'gap' for government lenders to act proactively – as a 'catalytic' financier – to support critical mineral projects through crucial phases of financing and, importantly, through the construction and ramp-up phases (that precede sustained positive cashflow).

Revise the mandate for EFA to enable it to act as a proactive financier to commit ahead of the commercial banks; applying a higher-yet-reasonable risk appetite for critical mineral projects (and other sectors assessed as in the national interest). A complementary mandate to 'crowd-in' commercial investment rather than sit back

³ Revised statement of expectations for Export Finance Australia, Minister for Trade, Tourism and Investment, 24/11/2020.

and wait to fill gaps left by commercial finance partners could have the greatest impact for expanding capacity. The mandate of the Northern Australia Infrastructure Facility (NAIF) is a good example of a catalytic investor in Australia.

In addition to existing structures such as EFA, opportunities for reform to the superannuation sector to incentivise them to invest in more projects that invest in clean energy and projects that secure critical mineral supply chains could be pursued. There are no incentives for superannuation funds to take a longer-term view in the critical mineral space.

The Federal Government through Treasury has done some work in this space through its Sustainable Finance Strategy process in 2023 but it does not appear to be linked to the Future Made in Australia agenda.

We recommend the Government link the Future Made in Australia agenda to Sustainable Finance Strategy to unlock other potential opportunities for critical mineral supply chain investment.

It's the product from upstream producers that ultimately feed the downstream opportunities. For immature and opaque supply chains, this could make a transformational difference and attract further finance from potential partners in different parts of the supply chain.

Community Benefit Principles

In relation to community benefit principles, our position aligns with the Association of Mining and Exploration Companies (AMEC), who have advocated the following in relation to the Future Made in Australia:

The obligation placed on industry seeking to make investment onshore as part of Future Made in Australia should be a light touch as they will already be providing community benefit from building new industries and, with it, new jobs in Australia. Any requirement that imposed duplicative administrative burden should be discouraged as raising barriers to investment will do more to discourage than incentivise.

Resources companies operating in Australia, particularly in regional and remote locations, make significant contributions to the communities in which they operate and do so willingly. **Government should review the benefit already provided by an organisation in the first instance and avoid duplicating existing commitments and processes in place – including but not limited to obligations under the *Australian Jobs Act (2013)* and *Native Title Agreements (where applicable)*.**

Should the Committee wish to discuss Liontown's position further, please contact our Principal, Government Advocacy and Policy, Jared Newton, at [REDACTED] or [REDACTED].