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Department of the Treasury
Submitted via email to: CriticalMinteralsProductionTaxIncentive@treasury.gov.au

To whom it may concern,

**Climateworks Centre submission on the Critical Minerals Production Tax Incentive**

Climateworks Centre welcomes the opportunity to provide a submission to the Department of the Treasury on the Critical Minerals Production Tax Incentive as part of the Future Made in Australia (FMA) program. We look forward to seeing more detail in relation to this FMA support in future legislation packages.

Climateworks bridges the gap between research and climate action, operating as an independent not-for-profit within Monash University. We develop specialist knowledge to accelerate emissions reduction, in line with the global 1.5 degrees Celsius temperature goal, across Australia, Southeast Asia and the Pacific.

Australia is well placed to take advantage of the need for other metals, with relatively large global shares of reserves and production of nickel, lithium, copper and zinc. Solving the challenges of decarbonising this supply chain in Australia will be critical to ensuring a sustainable supply of these metals as the global energy transition gathers pace. This is especially urgent as the window to limit global warming to 1.5 degrees is still open, but narrowing.

Australia's heavy industry sector, including the extraction and processing of critical minerals such as nickel, lithium, cobalt, manganese and rare earth elements, are the source of 44 per cent of Australia's total scope 1 and 2 emissions. Mining and production processes consume 44 per cent of total energy and 40 per cent of electricity (Climateworks Centre and Climate-KIC Australia 2023). The decarbonisation of Australia's critical mineral production facilities and the use of critical minerals in the climate transition is essential in the effort to limit global warming to 1.5°C.

The 'Coordinated action scenario' explored by Climateworks in the Australian Industry Energy Transitions Initiative (Australian Industry ETI) shows that decarbonising critical mineral supply chains in line with a 1.5°C carbon budget requires Australia to address significant challenges and uncertainties. Meeting growing demand for these minerals with sustainable production will require further development of green mining technology and renewable energy and hydrogen infrastructure will need to be effectively integrated with new and existing mines.

Climateworks recognises the value of the Critical Minerals Production Tax Incentive as one of a range of mechanisms to be used to attract and enable investment in critical mineral production. The recommendations in this submission will enhance the design and delivery of the scheme and support the objective of establishing Australia as a renewable energy superpower.

Climateworks will be pleased to provide further analysis or to partake in meetings where additional information is required.

## Recommendations on the Critical Minerals Production Tax Incentive

**Recommendation 1: Consider how the Critical Minerals Production Tax Incentive can support the supply of net zero industrial precincts and thereby enhance economic efficiency and enable further industrial development**

Changes to multiple conditions are important in order for critical mineral production industries to thrive in Australia and to make the most of the transition to a global net zero economy. To support greater production in a manner that reduces emissions, facilities will need access to affordable renewable energy, enhanced technologies, and increased market demand and connection to appropriate customers - along with investment that will be stimulated through the Critical Minerals Production Tax Incentive.

Australia's ability to make the most of these opportunities will be more achievable, and the Critical Minerals Production Tax Incentive could have more economic benefit, if critical mineral production is connected to supply chains for net zero industrial precincts. Connecting to industrial precincts in this way and seeking a transition to green production standards would reinforce the government's FMA agenda.

Climateworks has undertaken significant analysis on how policy-makers can implement successful net zero industrial precincts, including through the Australian Industry Energy Transitions Initiative report and in Brief for Policymakers: Renewable Energy Industrial Precincts. We would be pleased to discuss and provide further analysis on how critical mineral production can be embedded in a broader precinct approach.

**Recommendation 2: Include a review process for the Critical Mineral Production Tax Incentive to assess ongoing necessity of support and help avoid perverse outcomes**

Governments' role in the development of a critical mineral production industry would rightly include subsidies where the market is not incentivising investment in line with long-term economic and wider social benefits. The perceived risks and capital costs for establishing critical mineral production facilities are significant. A Critical Minerals Production Tax Incentive can accelerate their deployment and reduce costs over time.

It is essential that governments carefully contemplate incentivising investment. The criticisms of production subsidies – including tax incentives – are that they risk creating dependency among beneficiaries, disproportionately benefit larger and financially affluent companies, create economic distortions and administer financial support for longer than required. Climateworks is not yet convinced that a definitive 2027–28 to 2039–40 period for the provision of the incentive would avoid such outcomes. While project bankability requires confidence about such support in the early years, it is also important for the government to balance the need for support for one sector over another to get the most effective transformation for Australia.

Climateworks recommends Treasury monitor and report payments made under the scheme, as well as the critical mineral capital and production costs over time, to ensure the scope and nature of support continue to align with scheme objectives.

**Recommendation 3: Require ‘credible transition plans’ from recipients so as to make support consistent with Australia’s emissions reduction targets and ambitions to be a renewable energy superpower**

Critical minerals are considered under the economic resilience and security stream conomic resilience and security stream. However, Climateworks highlights the importance of ensuring all government investment supports economic transition that makes the most of opportunities from the global net zero economy. Climateworks therefore recommends that recipients of the Critical Minerals Tax Incentives meet an emissions intensity standard and have in place credible climate transition plans. We also support the requirement that recipients adhere to the community benefit principles of the Future Made in Australia plan.

A corporate climate transition plan is a time-bound action plan that clearly sets out a company’s strategy to reach its objectives and transform its business model, assets and relationships towards a net zero path aligned with the Paris Agreement. As beneficiaries of the Critical Minerals Production Tax Incentive, recipients have a duty over and above other companies to decarbonise their operations. They should be obliged and supported to develop credible transition plans that cover their critical mineral production facility and organisations holistically.

**Recommendation 4: Expect critical mineral production facilities to adhere to appropriate decarbonisation standards and transition in line with national targets and the Paris Agreement**

The Proposed Details in the Critical Minerals Production Tax Incentive consultation paper do not include any requirement for critical mineral production facilities to limit their carbon emissions. This is inconsistent with Australia’s national net zero objectives, the broader objectives of the Future Made in Australia plan and the goal of establishing Australia as a renewable energy superpower.

Climateworks suggest two options for appropriate emissions intensity standards. The forthcoming Australian sustainable finance taxonomy will provide a framework for companies to classify and verify critical mineral production facilities as environmentally sustainable and would be an appropriate instrument. Alternatively, the standard could be set according to international best practice emissions intensities used in the Safeguard Mechanism.

Thank you for taking the time to consider our submission. We would welcome an opportunity to brief your team to provide further insights from our work.

Yours Sincerely,

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**REFERENCES**

Climateworks Centre and Climate-KIC Australia (2023) *Pathways to industrial decarbonisation: Positioning Australian industry to prosper in a net zero global economy*, Australian Industry Energy Transitions Initiative, Phase 3, Climateworks Centre, accessed 8 July 2024.