



# The time is now

**The Australian Agricultural  
Sustainability Framework (AASF) and  
its role in sustainable supply chains**

May 2022

[KPMG.com.au](https://www.kpmg.com.au)

# Report highlights

The focus of this study was to explore the market landscape for Australian agricultural sustainability in both domestic and international markets. The purpose was to understand how evolving market transformations may influence the Australian agricultural sector. This included the identification of existing incentive mechanisms which have the potential to provide farming enterprises with a reward for adopting and maintaining sustainable practices.

## The time is now

- Sustainability has gained a foothold across corporate Australia.
- Consumers, shareholders, financiers, and regulators are demanding transparency. Businesses have a responsibility to disclose the Environmental, Social, and Governance (ESG) impacts across their supply chain.
- Businesses who do not act are at risk of loss of access to both physical and capital markets. They need to act now, and fast.

## Several tools have emerged to support companies to address sustainability risks and impacts

- Corporate sustainability reporting tools serve to communicate a company's ESG impacts and their progress towards achieving sustainability goals. These tools are quickly growing in sophistication and expanding their scope to include specific criteria for the agriculture, food and beverage sector.
- However, the rapid growth of these tools and the lack of harmonisation across them has resulted in misalignment and confusion. Currently, there is no single definition for Australian agricultural sustainability to guide and inform company's sustainability decision making. As a result, companies are developing bespoke sustainable sourcing programs which are underpinned by varying and misaligned language and criteria.

## Ultimately, sustainability requirements are flowing upstream and creating new demands for farmers

- Sustainability is at the heart of the farm sector in Australia. However, buyer, financier and regulator demands are rapidly changing. To meet these demands, the farm sector is being asked to adopt new sustainable practices and to disclose information related to their environmental and social footprint.
- This evolving landscape presents opportunities for increased collaboration between the private sector and the farm sector.

## Financing the adoption of sustainable farming practices needs innovative and novel partnerships between the farm sector, private sector, and the government

- Financial mechanisms to incentivise sustainable agricultural practices are emerging however the market remains at a nascent stage.
- To move at scale, the entire ecosystem needs to be brought along the journey. Collaboration will be key. All stakeholders will have a role to play in creating true and transformational sustainable change.

## The AASF can become a valuable tool to support stakeholders along this journey

- One singular mechanism or incentive cannot solve the funding gap. Tangible change requires the scaling of several mechanisms and approaches. Multiple tools are needed to support this.
- The AASF can become the overarching framework which provides stakeholders with clear language and descriptors which are relevant to agricultural sustainability, and it will play a key role in supporting businesses to develop sustainability incentives in the future.



# At a glance

Sustainability is quickly becoming the new normal, underpinned by four key drivers:



Access to capital



Regulation



Market access



Consumer demand

Examples	In 2019, funds based on ESG-themes pulled in a record-breaking US \$20.6bn	Mandatory disclosure of climate risk by publicly listed entities in NZ, UK and Hong Kong	Canola growers selling into the EU must meet sustainability requirements for market access	6 in 10 consumers are willing to change shopping habits to reduce environmental impact
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Global reporting frameworks and standards are quickly evolving to encourage the adoption of sustainable best practice and further support the transition to a sustainable global food system.

## The Australian Agricultural Sustainability Framework

The central source of information on Australian agricultural sustainability which outlines, through clear language, a common set of sustainability principles and criteria. The framework acts as a key translation layer between the farm sector and downstream participants including supply chain companies, financial institutions, governments and trade partners. It is an overarching framework which complements, not replaces, individual industry programs. In doing so, it supports multi commodity farming enterprises and multi commodity buyers on their sustainability journeys. It further provides a point of reference to bolster the Australian agriculture brand and demonstrate the sector's commitment to ongoing stewardship.

The farm sector is, and has always been, a key contributor to sustainable development. As the market has evolved and sustainability has gained traction, the sector has matured through the development of industry programs to demonstrate sustainable performance. However, there is currently no single definition for sustainability which captures the breadth of agriculture across geographies and commodities.



Sources: CNBC 2020, GRDC 2018, IBM 2020, HKMA 2020, NZ Ministry for Environment 2021, UKGOV 2020



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# The Australian Agricultural Sustainability Framework

## Project background

The Australian Government has recognised the need to support the agricultural industry to develop new tools and solutions to improve sustainable performance. In 2019, the Australian Government announced a AU\$34 million Agriculture Biodiversity Stewardship Package within the Federal Budget.<sup>1</sup> This funding is targeted towards helping Australian farmers to improve land management practices and to develop market arrangements to reward farmers for sustainability. Within this, the National Farmers' Federation (NFF) is leading a project under a \$4 million grant agreement with the Australian Government looking at the development of a sustainability framework for the Australian agricultural industry.

Phase 1 of the NFF project was completed in 2020 by the Australian Farm Institute (AFI). It provided a stock take of existing Australian agriculture sector programs (such as Best Management Practices (BMPs) and domestic industry sustainability frameworks), as well as a high-level comparison of similar programs in international markets. This stocktake identified that there is a high level of complexity, cost and difficulty which arises from having multiple programs specific to individual agricultural industries. AFI's research concluded that the sector would benefit from the development of an overarching framework that connects and verifies current and emerging programs at a nationwide and sector wide level.<sup>2</sup> Phase 1 findings are documented in AFI's 2020 report, *Recognising On-farm Biodiversity Management*.

This work has become the genesis for Phase 2 of the project, which involves the design and development of the inaugural Australian Agricultural Sustainability Framework (AASF). Phase 2 commenced in February 2021 and is structured under a multi-phased approach managed by the NFF with six integrated elements led by different organisations, including the AFI, KPMG, The Commonwealth Scientific and Industrial Research Organisation (CSIRO), Schuster Consulting, KG2 Consulting, and Aither.

## What is the AASF?

The AASF is a voluntary framework which acts as a central source of information about Australian agricultural sustainability and provides a translation layer between the farm sector, the private sector, government and the community. The framework seeks to provide a consistent view of Australian agricultural sustainability at the national level to assist in alignment and to reduce duplication. It aims to ensure consistency and cohesion across multiple programs, schemes, and other initiatives, by mapping existing industry-level sustainability goals into a catalogue of basic sustainability principles and criteria which represent the sector in its entirety.

The framework has been designed with the intent to:

1. Create alignment across existing and emerging programs at a national level and to reduce duplication of industry specific schemes.
2. Allow for diversity across commodities, geographies, and production systems.
3. Ensure consistency with global sustainability schemes' principles, criteria and language.
4. Ensure there is no added cost to participants, and to act as a voluntary program with no mandatory requirements.

The framework adopts an Environmental, Social and Governance (ESG) structure under three themes: Environmental Stewardship, People and Communities, and Economic Resilience, and identifies 17 principles and 45 criteria which bring Australian industry sustainability efforts into alignment with global market and community expectations.

## Where does the AASF fit amongst other agricultural sustainability projects?

There have been several major developments related to sustainability, carbon, natural capital, and biodiversity within the Australian agricultural industry over the last three years.

In 2018, the NFF developed the *2030 Roadmap: Australian Agriculture's Plan for a \$100 Billion Industry (2030 Roadmap)*. The roadmap advocates for an ecosystem services approach to agriculture and promotes a natural capital accounting system to remunerate farmers for positive environmental contributions. The roadmap identifies a target of 5% of farm revenue to be generated by ecosystem services. In 2019, KPMG published *A Return on Nature* in collaboration with the NFF, which shifted the focus of the sustainability conversation towards reframing the incentive and reward structures. It further explored how farmers could get paid for the contribution they make to enhanced environmental outcomes through new forms of investment by the public and private sector. These two reports have contributed to the growth in awareness and interest of ecosystem services, natural capital, and biodiversity in Australia.

Today, numerous projects are underway which seek to protect and maintain the environment and the services which it provides. Alongside the development of the AASF, the Agriculture Biodiversity Stewardship Package is supporting projects focused on biodiversity stewardship and carbon reduction, including the development of a National Biodiversity Stewardship Trading Platform and a Carbon + Biodiversity Pilot, which is trialling a market-based mechanism to reward farmers for enhancing biodiversity on-farm.

While carbon, natural capital and biodiversity gain traction across the Australian agriculture sector, new tools and mechanisms are being developed to enable change. Amongst these advancements, the AASF plays a unique and valuable role. The scope of the AASF is comprehensive and has been designed to be relevant for all producers, from all industries and across all geographies within Australia, as well as supply chain actors and consumers who seek to better understand the industry's sustainability actions and goals. It goes beyond a single focus area, with its scope spanning categories such as land management practices, social and animal welfare, economics, natural capital, and environment characteristics. It is a multidimensional, multiscale, and multipurpose vehicle to promote Australian agriculture sustainability in all of its facets and for all of its audiences.

The AASF supports the Australian agricultural sector to showcase its positive contribution to sustainability to both domestic and international audiences. It is also representative of the evolving private sector dynamics in relation to sustainability across ESG pillars. As identified throughout this report, many supply chain companies

and financial institutions are increasingly focusing on and prioritising sustainability. The ability for these companies to measure and report on all facets of sustainability upstream in their supply chains is becoming increasingly important, and there is a growing need for the Australian agriculture sector and individual producers to be able to demonstrate their positive impact on the environment and society. This concept is discussed in detail throughout this report, including an articulation of the role of the AASF within this dynamic.

## How has the AASF been developed?

Development of the AASF commenced in February 2021, led by the AFI. In the first quarter of 2021, the AFI reviewed existing sustainability programs (such as verification schemes and voluntary frameworks) to inform the inclusions of the AASF. Some of the global programs which were considered during the development of the first iteration of the framework included the Global Reporting Initiative (GRI) Standards for Agriculture, Aquaculture and Fishing, the Sustainability Accounting Standards Board (SASB) Materiality Map, and the Sustainable Development Goals (SDGs) Indicators, to name just a few. During the framework design process, AFI worked closely with an expert reference group (ERG) of subject matter experts to ensure a rigorous peer review process was applied.

The first iteration of the framework was completed in May 2021 and was thereafter tested with a broad range of stakeholders. The AFI consulted with approximately 35 stakeholder organisations to exhibit and test the framework and to obtain direct feedback on the structure, content, and language. Throughout the framework development process, AFI have continually engaged with their ERG to obtain feedback and recommendations.

Separately to the framework development, KPMG have conducted a desktop review to identify the demand landscape for sustainability within agricultural supply chains both domestically and internationally. This included the identification of current financial incentives attributed to the farm sector from supply chain corporations and financial institutions which seek to reward sustainable farming practices. In June 2021, KPMG hosted 20 consultations with downstream stakeholder organisations including financial institutions, consumer goods brands, retailers, and more, to further understand the demand landscape and market opportunities for financial incentives. During these consultations, KPMG tested the framework language, structure, and value proposition. The combination of AFI's and KPMG's consultations ensured that the framework considered the perspective of a range of associated stakeholders.

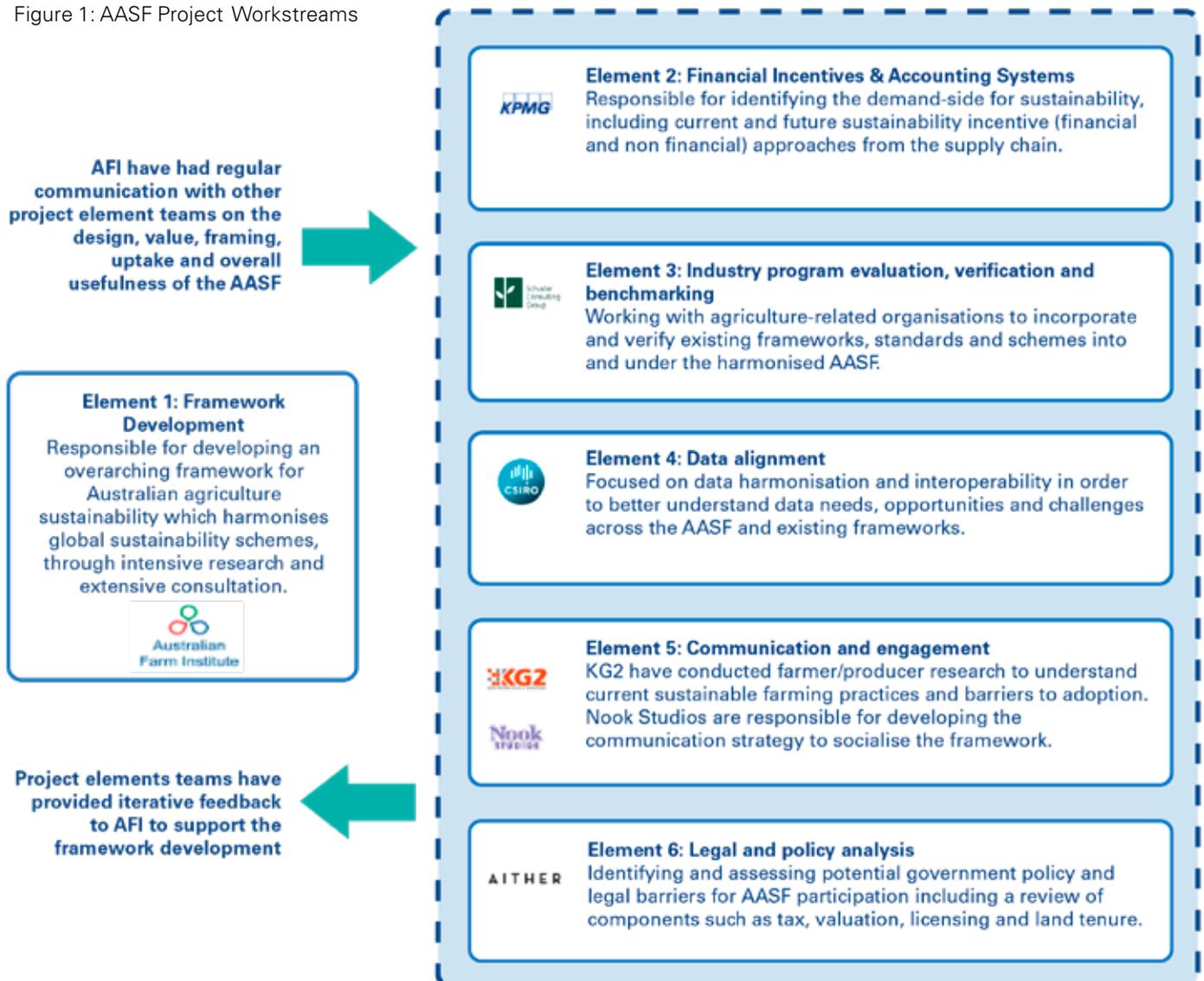
In parallel to these two workstreams, four other organisations have been engaged on other elements

of work. These elements are interrelated, and each contribute to the framework in different forms, including an understanding of the demand landscape, data alignment, industry program alignment and benchmarking, legal and policy considerations, and producer engagement. Stakeholder consultation has been a critical component of the broader project, with the intent for the framework to be built by its stakeholders, for its stakeholders. (see **Figure 1** for more details on the other elements of work).

Following an extensive feedback consultation process on the first version, a second iteration of the framework (AASF V2) was created. In November 2021, KPMG hosted several roundtable discussions which brought together a diverse group of stakeholders from the farm sector, private sector,

and public sector to socialise and test the second iteration of the framework, and to facilitate a constructive dialogue on the value proposition, gaps and opportunities for the framework. The findings from these roundtable discussions will be taken into consideration for the design of Phase 3 of the AASF project.

Figure 1: AASF Project Workstreams

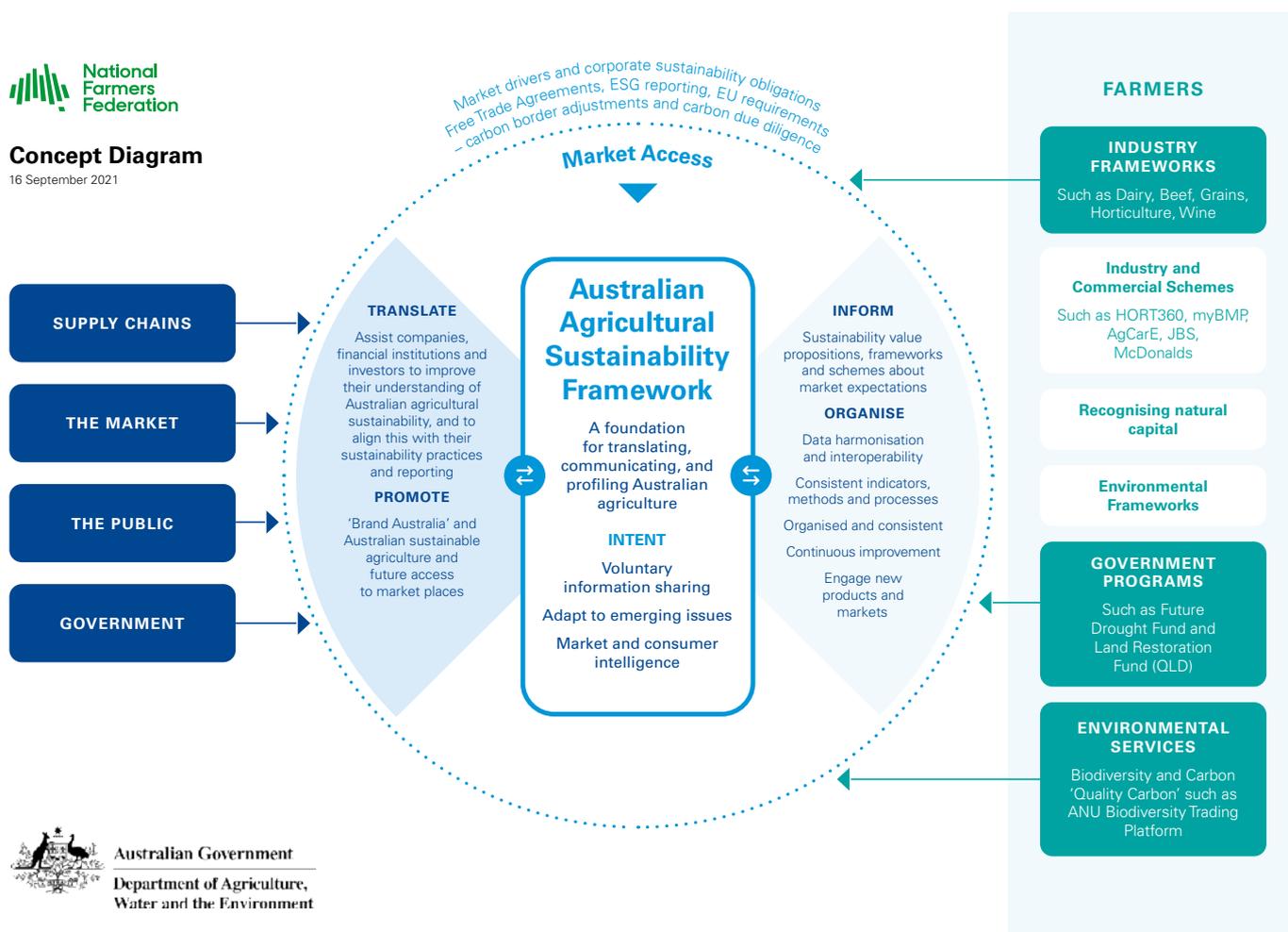


### What value does the AASF provide?

Phase 2 of this project has involved a discovery process in consultation with a range of stakeholders from industry, business and government to identify how the framework adds value to the sector. Work to date suggests that the framework has the potential to:

- Act as a translation layer to assist companies, financial institutions, and investors to improve their understanding of Australian agricultural sustainability, and to align this with their sustainability strategies, initiatives, and reporting processes.
- Act as a tool to support sustainability credibility of Australian agricultural products to ensure continued access to international markets and provide validity in trade negotiations.
- Provide the industry with a ‘voice at the table’ on sustainability initiatives at a national level.
- Inform the development of new industry programs, as well as updates to existing programs.
- Act as a mechanism to support the flow of capital to the farm sector through incentives.
- Enhance the credibility of ‘Brand Australia’ in international markets.

Figure 2: Conceptual Draft of the Australian Agricultural Sustainability Framework (AASF)



# The business case for sustainability

## Sustainability is at the heart of farming in Australia

Agricultural land managers are responsible for managing over 50 per cent of Australia's land mass,<sup>3</sup> which holds more than \$6.5 trillion worth of natural assets.<sup>4</sup> The long-term success of the industry is dependent on continued access to land, water and other natural resources. Over time, many farmers have adopted sustainable farming practices to build and maintain healthy soil, manage water, minimise waste and pollution, and promote biodiversity. Sustainability farming practices have in many cases been business as usual. However, the demand for the farm sector to disclose information related to sustainability performance is increasing.

## The time is now

Sustainability considerations are at the top of the agenda for individuals and businesses alike. Heightened regulation and changing consumer, investor and shareholder sentiments have driven a global movement towards ESG reporting standards and the growth of sustainable finance. Sustainable finance refers to any form of financial investment integrating ESG criteria into the business and investment decisions for the lasting benefit of shareholders and society at large.

These market transformations are ultimately influencing agribusiness, food, fibre and beverage companies to transition toward values-based strategies, focusing on sourcing environmentally friendly raw materials. As a result, many companies are increasingly seeking to work with farmers to identify, measure and report on ESG impacts at the point of production.

KPMG's Global Sustainability survey highlights that over 80 per cent of companies worldwide and over 96 per cent of the world's largest 250 companies now report on sustainability.<sup>5</sup> Additionally, over one-third of the world's professionally managed assets, approximately US\$30 trillion, are subject to ESG criteria.<sup>6</sup> Companies are setting bold sustainability targets and implementing initiatives to boost their productivity and competitiveness. Equally, banks, private

and public capital markets, investors, and credit funds are increasingly seeking to finance businesses that deliver positive sustainability outcomes to reduce their reputational and financial risks.

There are several market forces driving this growth. Ultimately, businesses are realising that positive sustainable performance is quickly becoming the norm and expectation in both physical and financial markets.

## What is ESG?

Environmental, Social and Governance (ESG) criteria are a set of standards for a company's operations



**Environmental criteria** consider how a company performs as a steward of nature

**Social criteria** consider how a company manages its relationships with employees, suppliers, customers and communities

**Governance criteria** consider a company's leadership, internal controls and shareholder rights

## Case Studies: Regulations in the EU

### Carbon Border Adjustment Mechanism

The EU's Green deal is a set of policies which are aimed at reaching net zero emissions by 2050. One of the policies within this deal is the Carbon Border Adjustment Mechanism (CBAM), which seeks to place a carbon price on imports of certain goods from outside the EU. The mechanism is expected to function similarly to the EU Emissions Trading System, where importers of emissions-intensive foods pay a charge linked to what they would be required to pay if they were covered by Europe's carbon-reduction laws. Currently, the mechanism will be limited to a few sectors, including power, cement, steel, aluminium and fertilisers. However, it is designed to enable gradual extension across industries over time.

### EU Green Deal, Farm to Fork Strategy

As part of the EU Green Deal, the Farm to Fork Strategy proposes a legislative framework for sustainable food systems, outlining:

- 50 per cent reduction in the use and risk of chemical pesticides by 2030.
- 50 per cent reduction in nutrient losses while ensuring that there is no deterioration in soil fertility.
- 50 per cent reduction in sales of antimicrobials for farmed animals and aquaculture by 2030.
- 25 per cent of agriculture land under organic farming by 2030.

### German Government's Supply Chain Act

The German federal government is aiming to hold large German companies accountable for their supplier's behaviour, particularly in relation to Human Rights. On 3 March 2021, the government adopted the draft Corporate Due Diligence in Supply Chain Acts which, generally speaking, will require companies regularly review supply-chain criteria such as working conditions or health and safety, and to rule out any environmental hazards posing a danger to human life. It is expected that the Act will come into force in early 2023.

See appendix for full list of sources used

## Access to physical markets

Trade policies and sustainability are quickly converging as governments around the world are taking bold approaches to achieve their own sustainability ambitions. For instance, the European Union (EU) is moving forward with carbon border levies which will place charges on carbon-intensive goods from exporting countries.<sup>7</sup> Currently, this is targeted towards heavy industries, such as energy intensive manufacturing. While this example does not directly relate to agriculture in the here and now, the risk of international policies and tariffs such as this expanding their scope to agriculture is high, owing to agriculture's inherent reliance on the natural environment.

More broadly, consumer demand, regulation, market access and supply chain legislation can be expected to have an increasingly strong influence on the trade of food and agriculture goods in domestic and international markets.

**Consumer Demand:** Consumers are becoming increasingly aware of the environmental and social footprint of their purchases. As a result, the expectations on businesses to address sustainability issues within their supply chains are rising.

Businesses are responding by looking at supply chain practices, implementing digital strategies to improve traceability, and pursuing branding strategies to communicate product provenance information. Many companies have set and communicated bold sustainability targets. Australian beverage company Lion has adopted a Science Based Target commitment to reduce carbon

emissions by 55 per cent by 2030 from their 2019 baseline.<sup>8</sup> Fashion retailer Country Road Group have committed to ensuring the responsible sourcing of key raw materials – cotton, leather, wool and timber, including the ambition for 100 per cent of cotton products to support sustainable farming practices (no identified target end date).<sup>9</sup> Australian food retailer Woolworths Group have set four distinct goals related to the environment in the areas of carbon emissions, green electricity, food waste and natural resources. By 2022, in collaboration with their farmers, Woolworths' plan to carry out and publish a review of the potential for adopting sustainable and regenerative agriculture practices across their fresh food supply chain aimed at improving areas such as soil health and water efficiency in high-risk areas.<sup>10</sup>

The recent climate related events such as the 2019-20 bushfires in Australia and the convening of international delegates at COP26 in Glasgow in 2021 are catalysing new demands and expectations from consumers. Moving forward, businesses will need to stay in tune with evolving consumer demands and adapt their business practices to meet the growing expectations.

**Regulatory Requirements:** The past decade has seen a rapid rise in the number of companies making statements or disclosures about climate and ESG. However, without streamlined disclosure regulations, these statements and claims can be difficult to validate and this has led to accusations of greenwashing. In response, regulators across many jurisdictions are setting new rules that will require companies to disclose information related to their ESG performance. The United States (US), United Kingdom (UK) and Europe are examples of jurisdictions in which

governments has passed new regulations related to the climate and environment:

- In May 2021, the US Biden Administration issued an Executive Order on climate-related financial risk which aims to “advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk”. This includes physical risks such as supply chain disruptions from extreme weather events as well as transition risks, such as a transition away from carbon intensive energy sources.<sup>11</sup>
- In October 2021, the UK announced its intent to introduce Sustainability Disclosure Requirements, an integrated framework for ‘decision-useful disclosures’. The Framework will apply to listed companies, asset managers, and the administrators of investment products.<sup>12</sup>
- France is moving towards mandatory reporting of corporate biodiversity footprints. Additionally, the EU Directive on non-financial reporting will require financial institutions and businesses to disclose their products’ impact on biodiversity.<sup>13</sup>

While Australia is behind international counterparts in setting ambitious sustainability-oriented legislation and market regulation, momentum is growing across Australia’s financial regulatory landscape, including: Australian Prudential Regulatory Authority (APRA), Australian Securities and Investments Commission (ASIC) and Australian Securities Exchange (ASX). APRA, ASIC and ASX are increasingly vocal in supporting climate risk disclosures and vulnerability assessments. In 2019, both ASIC and the ASX outlined that organisations are legally obliged to identify and report any material exposure to sustainability risks, and if so, how they intend to manage those risks.<sup>14</sup>

To date, one of the most significant movements in the regulatory landscape has been the development of the Taskforce for Climate-Related Financial Disclosures (TCFD) and the Taskforce for Nature-Related Financial Disclosures (TNFD). The TCFD was established as a voluntary framework in 2015 by the Financial Stability Board (FSB) as a means of coordinating disclosures among companies impacted by climate change. Several governments have set deadlines for the mandatory adoption of the TCFD. New Zealand is the first mover, setting a deadline of 2023,<sup>15</sup> followed by the United Kingdom<sup>16</sup> and Hong Kong with 2025<sup>17</sup>. In 2021, APRA has continued to strongly encourage adoption of the TCFD recommendations; flagging their intention to undertake climate vulnerability assessments, stating that climate risks are material and significant to the financial services industry.<sup>18</sup>

Separately, the TNFD was announced in July 2020 and has steadily gained momentum after gaining backing by the Group of Seven (G7) and endorsement by major financial

institutions and multinational corporations.<sup>19</sup> The TNFD is intended to build on the TCFD and to specifically create opportunities for the protection and restoration of natural assets, and to align with economic activities set out under the SGDs. It is expected to have been developed and trialled by 2023.<sup>20</sup>

**Market access legislation:** Around 70 per cent of Australia’s total agricultural production is exported.<sup>21</sup> Continued access to export markets is critical for the future of the industry. However, the landscape for international trade is shifting, and sustainability is becoming an increasingly significant focal point in relation to market access.

Agricultural markets already feature in early sustainability-oriented trade policies. For example:

- Since 2009, Canola growers exporting to the EU have been required to declare the sustainability of their crop. In 2018, more stringent carbon emissions intensity standards were incorporated into the scheme. This now requires Australian canola growers selling into the biofuel market to declare their crop as sustainable to maintain access to the premium market. Selling into this market provides growers with a slight premium price.<sup>22</sup>
- EU’s Timber Regulation places market access requirements on timber importers by requiring importers to undergo a prescriptive due diligence and disclosure processes to minimise their risk of sourcing illegally harvested timber and forestry products.<sup>23</sup>

A more recent example of how markets are evolving to incorporate sustainability requirements is the trend towards lower chemical residues on traded grain. The Grains Research and Development Corporation (GRDC) has enforced the point that it is a legal requirement that chemicals used in the Australian farming system and grain supply chain be registered for use on a particular crop and applied according to the label directions. The chemical residue in the grain commodity must also be no greater than the legislated maximum residue limits (MRL) in the buyer’s jurisdiction.<sup>24</sup>

More broadly, sustainability has emerged as a core objective of various free trade agreement (FTA) negotiations, such as those between Australia, the EU, and the UK.<sup>25-26</sup> The sustainability objectives in these negotiations are intended to drive enforcement and alignment of labour standards and environmental protection to the expectation of importing countries.

**Supply Chain Legislation:** An emerging policy thematic is that businesses should be mandated to conduct operations to contribute to sustainable development and avoid adverse outcomes across value chains.

Newly proposed legislation in the EU endorses this agenda by mandating that large, listed and high-risk companies should integrate due diligence into their operations to prevent potential adverse social and environmental

impacts.<sup>27</sup> In an agricultural context, the Organisation for Economic Co-Operation Development (OECD) and the United Nations' Food and Agriculture Organisation (FAO) reaffirms the view that companies should proactively integrate due diligence into their supply chain activities to deliver positive sustainability outcomes through the Guidance for Responsible Agricultural Supply Chains.<sup>28</sup>

As this thematic matures, agricultural supply chains will experience greater pressure from regulators, as well as global and local supply chain partners to prove and even improve their sustainability credentials.

### Access to financial markets

Financial institutions are under pressure from policy makers, governments, and shareholders to support companies with positive ESG credentials. Global capital markets are also increasingly realising that the integration of ESG risks into investment decisions has the potential to improve returns. This is ultimately changing the flow of capital, which can be seen through advancements in sustainability-alignment investments, shareholder activism, sustainability-aligned banking as well as exclusionary screening and minimum standards.

**Sustainability-aligned investments:** There are a growing number of retail and institutional investors who are actively channelling money towards ESG conscious

businesses. In 2020, sustainable agriculture was included in the top five specific criteria most important to money managers in the US, with US\$2.38 trillion devoted to sustainable agriculture related investments.<sup>29</sup>

**Engaging in shareholder activism:** Retail and corporate shareholder activist groups are demanding that businesses act on a range of sustainability issues, such as climate change, recycling, pesticide use and modern slavery. The threat of shareholder requisition is increasingly material. In November 2019, Australian retailer Coles was subject to an unsuccessful modern-slavery related shareholder requisition over concerns over requisition based on concerns over labour standards in their supply chains.<sup>30</sup>

**Sustainability-aligned banking:** Banks are progressively developing products and services to help institutional and corporate customers reduce their ESG impact. This includes earmarking capital and utilising sustainable finance instruments to provide lower borrowing costs for sustainability-oriented businesses, projects, and practices.

**Exclusionary screening and minimum standards:** Investors and bankers may choose to prohibit and withdraw funding from companies that fail to meet sustainability requirements. Examples of withdrawing access to capital are rare, however, companies who engage in environmentally and socially destructive practices are

## Case studies: Access to capital

### Shareholder activism

- In September 2019, US food manufacturer General Mills was subject to a successful shareholder requisition. Shareholders asked the company to provide evidence of its efforts to reduce glyphosate use in its supply chain.
- In October 2020, the world's largest asset manager, BlackRock, voted to support a shareholder proposal that would see Proctor and Gamble report on deforestation in its supply chain.

### Sustainability Aligned Banking

- In April 2021, the industry-led, and UN-convened, Net-Zero Banking Alliance was formed, bringing together 43 banks from 23 countries with US\$28.5 trillion in assets. Participants of the program are committed to aligning their lending and investment portfolios with net zero emissions by 2050.
- Australian banks have followed suit with financing commitments to deliver sustainability outcomes:
  - a. Westpac Banking Group (WBC) has committed to a lending target of AU\$25 billion allocated to climate change solutions by 2030.

- b. The Australia and New Zealand Banking Group (ANZ) has committed to funding and facilitating AU\$50 billion by 2025 to help lower customer's carbon emissions.
- c. The National Australia Bank (NAB) has committed to providing AU\$70 billion in sustainable finance by 2025.
- d. The Commonwealth Bank of Australia (CBA) has committed to financing AU\$15 billion of low carbon projects by 2025.

### Sustainability Aligned Investment

- In 2019, funds based on ESG-themes pulled in a record-breaking US\$20.6 billion of new capital, a four-fold growth on 2018.
- In April 2020, global banking giant JPMorgan Chase announced a 10-year target to provide US\$1 trillion for green initiatives, with a focus on four key areas, including agriculture and food technology.
- In January 2021, BlackRock, asked companies to disclose how their business model will be compatible with a net-zero economy. This marked a step change in large scale investors, participating in exclusionary screening practices if companies fail to meet their sustainability reporting requirements.

See appendix for full list of sources used

exposed to an increasing amount of risk, ultimately making them less attractive to investors.

The examples shown in above indicate a monumental shift in the global financial system. The transition towards sustainable lending and investment practices will continue to shape the accessibility of capital to supply chain companies.

Nevertheless, the challenge to meet the growing needs of a rising population remains. Financial institutions are progressively recognising that agricultural supply chains are essential and non-substitutable. There are immense opportunities to support farmers and farming methods that use fewer resources, produce less emissions, and support communities. This creates opportunities for the global and local financial systems to support food and agribusiness companies and their upstream suppliers undergo sustainable transformation through access to capital.

**Sustainability as a lever of value creation**

Businesses that operate in sectors and/or geographies with high impacts and dependencies on nature are beginning to realise the business improvement opportunities of addressing sustainability risk. Increasingly, businesses are realising the commercial value of sustainability, through:

- Enhanced profit potential,
- Employee acquisition and retention,
- Reputation and brand image and,
- Risk management.

**Profit potential:** By implementing sustainable best practice, companies can realise potential cost reduction and increased financier and investor appetite.

Arabesque and The University of Oxford reviewed academic literature on sustainability and corporate performance. 90 per cent of 200 studies analysed concluded that good ESG standards lower the cost of capital. 88 per cent showed that good ESG practices result in better operational performance. And 80 per cent showed that stock price performance is positively correlated with good sustainability practices.<sup>31</sup>

**Employee acquisition and retention:** Today, a company’s commitment to sustainability is one of the first things applicants look for when they are researching companies to work for.<sup>32</sup> A separate study found that 90 per cent of employees believe sustainability enhances workplace satisfaction and overall feelings about the company.<sup>33</sup> Ultimately, sustainability is paramount to attracting and retaining talent amongst a progressively values-driven workforce.

**Reputation and brand image:** Businesses that adopt sustainable practices can reap the rewards of increased brand reputation among consumers, employees, financiers, and investors.

Sustainability issues can also threaten a company’s social licence to operate. There are material and disruptive consequences of losing a social licence to operate. The 2011 live cattle export to Indonesia ban, for instance, arose from a loss in societal trust over animal welfare concerns and resulted in economic losses in excess of AU\$200 million to the live export industry.<sup>34</sup>

**Risk Management:** Agriculture is deeply intertwined with the climate, ecosystems, and communities. As such, farmers, supply chain companies and banking institutions are exposed to a broad range of material sustainability risks.

For instance, the Australian integrated agribusiness GrainCorp, reported that drought cut its 2014 grain deliveries by 23 per cent, leading to a 64 per cent drop in 2014 profits.<sup>35</sup> Unilever estimates that it lost in excess of AU\$450 million per year as worsening water scarcity and declining agricultural productivity lead to higher food costs.<sup>36</sup> Further, a report by McKinsey estimates that the value at stake from sustainability risks to global businesses can be as high as 70 per cent of EBITDA (earnings before interest, taxes, depreciation and amortisation).<sup>37</sup>

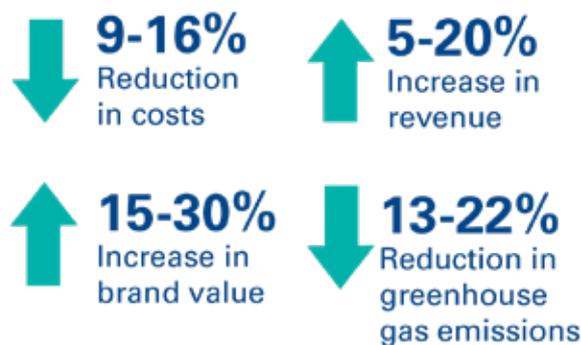
**Sustainability issues present substantial business risk**

By understanding and mitigating sustainability risks businesses can identify and respond to their most pressing threats. This requires companies to utilize its capabilities across financial, market and regulatory risk management.

**How businesses are responding**

The business landscape is being transformed by growing

Figure 3: Commercial benefits for businesses that address ESG



Source: Harvard Business Review, 2020

awareness of climate change, nature and biodiversity loss, and renewed calls for social equity. As the pressure to address sustainability mounts, companies are looking at what “more” they can do to strengthen their impact. However, responding to these shifts takes time, and many businesses are grappling with “what” to do next and “how” to action it. At present, there is a definitive breadth of corporate sustainability maturity across the Australian private sector.

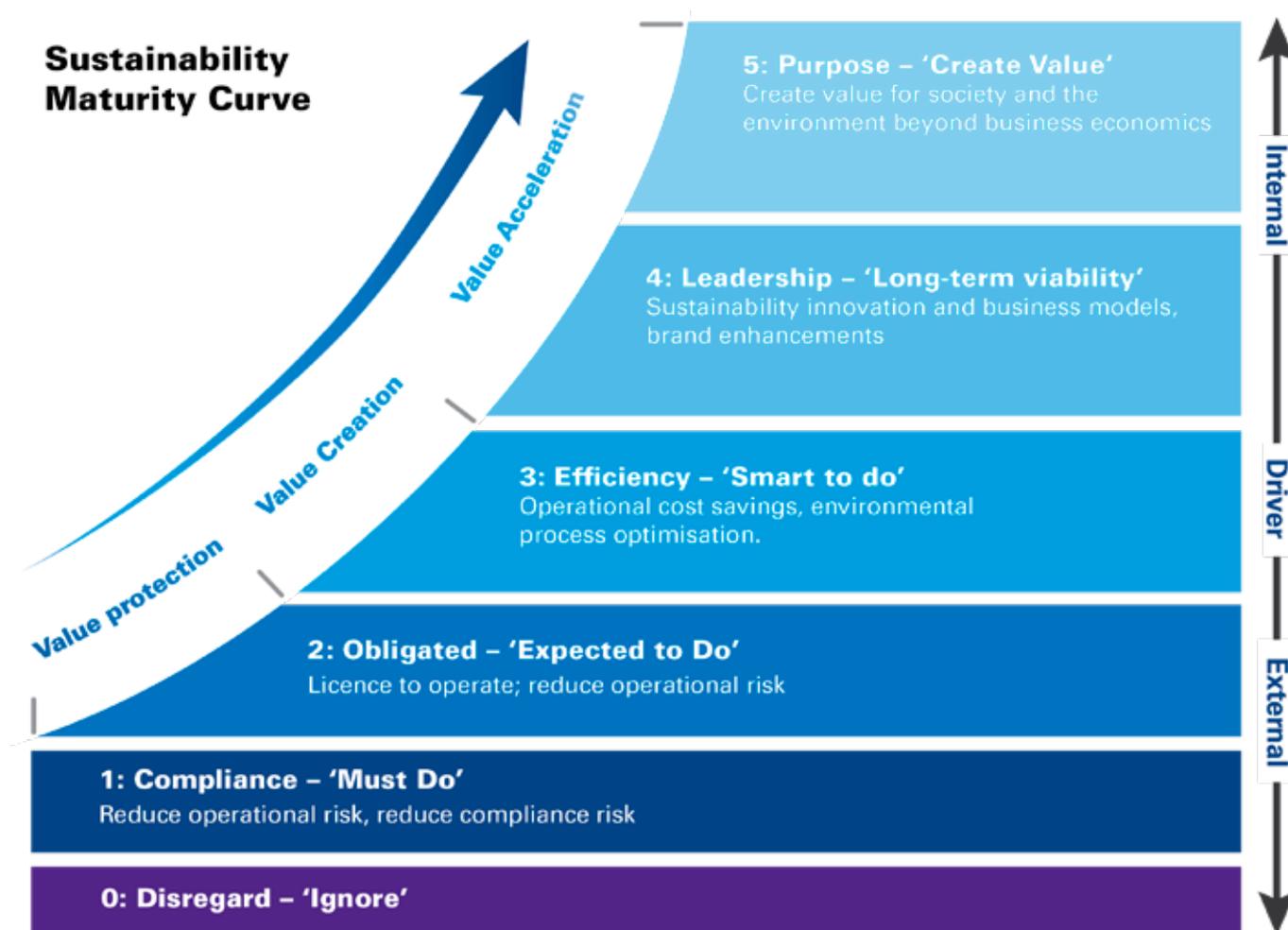
Most businesses are thinking about sustainability, however many of them remain at the early stages of addressing it. Across the maturity spectrum, or curve as outlined in **Figure 4**, there are five distinct stages: compliance, obligation, efficiency, leadership, and purpose. The first stage of corporate sustainability is business value protection, which is pursued out of compliance and obligation. This stage represents a market shift and the normalisation of businesses responding to the evolving pressures driven by market forces. As regulation is tightening, and jurisdictions around the world are implementing new rules, companies are increasingly required to disclose sustainability information. Today, most businesses have implemented sustainability initiatives and programs to meet the minimum requirements of sustainability to uphold their social licence to operate.

However, the rising pressures from investors, shareholders, stakeholders, and consumers, is requiring businesses to do more than “comply” with regulations. When businesses move beyond the point of obligation, they make a fundamental choice to recognise and address sustainability. At this point, businesses typically realise that sustainability is “smart to do” and this can lead to value creation opportunities.

The last three to five years have seen a transformation in the sustainability landscape across Australia. Businesses are rethinking their strategies and operations to play a stronger role in improving their environmental and social performance. At the peak of the sustainability curve, businesses approach sustainability with purpose, and a true intent to create value for society and the environment. The number of companies who have reached this point are few and far between, however the speed at which companies are moving upwards on this curve is accelerating.

Moving forward, the private sector has the potential to drive transformational change. Businesses are well positioned to implement positive change, and scale it. The following section outlines how companies are implementing sustainability strategies within their business, and what this means for the Australian agriculture sector.

Figure 4: Corporate sustainability maturity curve



Source: (Adapted from PricewaterhouseCoopers, 2011)



# Sustainable supply chains and the role of the AASF

## Sustainability in supply chains

Much of a company's environmental and social impact is embedded within their supply chain. Research by the Carbon Disclosure Project (CDP) states that supply chain emissions are on average 11.4 times higher than operational emissions.<sup>38</sup> There are also significant social risks and impacts, such as labour standard violations, animal welfare issues, other externalities local communities. CDP's research further suggests that environmental risks to companies' supply chains could cost up to US\$120 billion globally within the next five years, of which US\$17 billion will likely be attributed to the food, beverage and agriculture sector.<sup>39</sup>

Many companies are coming to terms and getting comfortable with managing sustainability within their direct operations, however addressing indirect and upstream operations presents novel challenges. Notably, the extension to supply chain sustainability requires businesses to work more closely with their suppliers. In the food and agriculture sector, this is resulting in greater collaboration between the farm sector and the private sector, through approaches such as materiality assessments, sustainable sourcing programs, capital investment in projects and initiatives, and as discussed later in this report, financial incentives to reward sustainable outcomes.

## Embedding supply chain sustainability into corporate strategy

Company led materiality assessments have emerged as a common approach to assess supply chain sustainability. These assessments effectively enable a business to prioritise sustainability areas, assess risks, and begin to mitigate and manage their impact. Many companies have extended materiality assessments outside of their direct operations to account for upstream risks, including at the farm gate. In 2020, global food and beverage company Nestlé extended the scope of their annual materiality assessment to include ESG impacts across their supply chain, including their agricultural suppliers.<sup>40</sup> Animal welfare, human rights, biodiversity, as well as climate and decarbonisation were some of the twenty-seven material issues identified across Nestlé's value chain; each of

which were identified as high impact.<sup>41</sup> The identification of these material risks throughout the supply chain enables a company to take targeted action to reduce their impact.

A review of up to fifty domestic and international corporate sustainability reports, led by KPMG as part of this project, identified that greenhouse gas emissions, waste and plastics, animal welfare, water use and pollution, biodiversity and modern slavery are some of the priority focus areas for businesses operating within food and agricultural supply chains.

Once material risks and impacts have been identified, the logical next step is for a company to outline a plan to reduce their impact. Frameworks can be used by companies as guidance on best practice strategies to drive positive change across their operations and supply chains. Several new tools are being adopted by companies to assess sustainability risks and to develop goals, targets and processes. For example:

- GRI is an independent international organisation that has pioneered corporate sustainability reporting since 1997. GRI produces the most widely used sustainability reporting standard internationally, offered as a free public good. With thousands of reporters in over 90 countries, GRI enables organisations and their stakeholders to make better decisions on these issues.
- CDP is an initiative that supports the private and public sectors to measure and manage the risks and opportunities on environmental issues, including climate change, water security and deforestation.<sup>42</sup>
- The Science Based Targets initiative (SBTi) is a program that provides companies with a clearly defined pathway to reduce their greenhouse emissions in line with the goals of the Paris Agreement.<sup>43</sup>
- SDGs are a set of goals that seek to 'end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda'.<sup>44</sup> The SDGs are generally accepted as the international language for communicating the sustainable development initiatives of businesses, industries and countries.
- SASB is a not-for-profit initiative that sets sustainability accounting standards so that companies, across 77 different sectors, can identify,

manage and communicate financially-material sustainability information.<sup>45</sup>

- Integrated Reporting, or <IR>, is an integrated risk management tool that considers the materiality of financial, environment and social issues. <IR> seeks to focus on an organisation's strategy, governance and performance, as well as its external environment, to drive value creation in the short, medium and long-term.<sup>46</sup>
- TCFD has created voluntary, consistent climate-related financial risk disclosures for use by companies to provide information to investors, lenders, insurers, and other stakeholders. It considers the physical, transition and liability risks associated with climate change.<sup>47</sup>

More recently, many of these tools have expanded their scope to include guidelines and measures specific to supply chain practices and/or food, fibre and beverage industries. For instance, the SASB have developed a Materiality Map which identifies a range of disclosure topics and associated accounting metrics relevant to specific industries. The food and beverage industry is accounted for, with specific disclosure topics identified for agricultural production, such as greenhouse gas emissions, materials sourcing, and waste management.<sup>48</sup>

Recently, the GRI has announced the development of a Sector Standard for Agriculture and Fishing. This is expected to help companies with agriculture and fishing activities in their value chain to understand their role in sustainable development and promote positive changes in transparency and accountability. The CDP have also established a supply chain membership, which helps

members engage with their suppliers to pinpoint risks, identify opportunities and to ultimately catalyse greater action among supply chain companies. Suppliers are asked to report environmental data through CDP questionnaires, to better enable businesses to measure their progress against sustainability targets.<sup>49</sup>

Many companies are further using these tools to provide a template to measure and disclose their ESG performance as part of a holistic approach to corporate reporting. For instance, GrainCorp aligned their 2021 sustainability reporting with the GRI, SASB, TCFD and the SDGs.<sup>50</sup> The company mapped their highly material topics, such as greenhouse gas emissions and water, to several of the SDGs as a basis for communicating their performance in their 2021 Sustainability Report.<sup>51</sup>

However, the rapid pace at which these tools have emerged has resulted in a lack of harmonisation and subsequently created confusion across the business community. In response, sustainability reporting frameworks have begun a process of standardisation. In late 2020, the GRI, SASB and the Climate Disclosure Standards Board (CDSB) issued statements to work together in forming a comprehensive corporate reporting tool.<sup>52</sup> Additionally, in late 2020 the World Economic Forum (WEF) initiated a program between 120 of the world's largest companies to develop a common set of metrics and disclosures on sustainability for their investors and other stakeholders.<sup>53</sup> In November 2020, it was announced that the SASB and <IR> will merge and to become a unified platform named the 'Value Reporting Foundation' (VRF).<sup>54</sup>



## Case study: IFRS Foundation

In November 2021 at COP26 in Glasgow, the International Financial Reporting Standards (IFRS) Foundation announced three significant developments to provide global financial markets with high quality disclosures on sustainability issues:

1. The formation of a new International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of sustainability disclosure standards by unifying existing frameworks and standards such as the GRI, CDP and TCFD.
2. A commitment to consolidate the CDSB and VRF – which houses the Integrated Reporting Framework and the SASB Standards by June 2022;

3. The publication of prototype climate and general disclosure requirements which has been developed by representatives from CSDB, the International Accounting Standards Board (IASB), TCFD, the VRF and World Economic Forum.

### So, what does this mean?

These developments will effectively streamline the multiple existing standards and frameworks and lay the groundwork for a standard approach to global sustainability disclosure for the financial markets. In the future, and if successful, the ISSB global baseline should become the leading framework for the AASF to align to.

Source: IFRS, 2021

## Starting at the source

As companies have pursued sustainable supply chain strategies, they have had to rethink their supply and procurement processes. This has led to the evolution of company led and bespoke sustainable sourcing programs and criteria. Nestlé have developed their own responsible sourcing standard which outlines what ‘responsibly sourced’ means for each raw material within their supply chain, including criteria which need to be met.<sup>55</sup> For example, Nestlé’s fresh milk and dairy processed ingredients volumes are considered responsibly sourced when they meet one of the following criteria:

- a. Farm assessments have been performed by a third-party verification company (e.g., SGS, Control Union, Bureau Veritas) on a sample group of farmers supplying Nestlé directly or through one of the dairy processed ingredients suppliers.<sup>56</sup>
- b. Nestlé has engaged with a dairy processed ingredients supplier in remediation/capacity building “value adding projects” (e.g., animal welfare, greenhouse gas (GHG) emissions, water) driving greater responsible sourcing and sustainability in the Nestlé supply chain.<sup>57</sup>

To go a step further, multinational consumer packaged goods company Unilever has this year developed their own regenerative agriculture principles as part of their sustainable sourcing program. The principles provide guidance on how to further deliver positive outcomes by nourishing the soil, increasing biodiversity, improving water quality and climate resilience, capturing carbon,

and restoring and regenerating the land. The company has pledged that they will invest time and resources to work with farmers and suppliers across different commodities and in different geographies through a suite of implementation trials.<sup>58</sup>

The growth in supply chain sustainability and adoption of bespoke sustainability strategies and sourcing programs is a positive step, however it also presents novel issues for the farm sector. Currently, there is no one size fits all approach to developing sourcing programs related to agriculture, and there is no harmonisation across company sourcing programs. This means that farmers who produce a range of commodities, and/or supply to a range of buyers, are required to meet an ever-increasing list of requirements and criteria.

## Valuing externalities

Transformational sustainable change cannot be achieved until non-financial forms of capital, such as natural and social capital, are recognised on the balance sheet. Fundamentally, the social and environmental costs of goods and services must be valued. In many cases, this value is not accounted for and externalities are not reflected in the prices of goods and services. This is a market failure.

Sustainability accounting tools enable companies to value environmental and social externalities and integrate these into financial and risk decision-making practices. The end goal is to increase transparency for stakeholders and regulators.

Notable examples of sustainability accounting tools include:

- The Comprehensive Accounting in Respect of Ecology Triple Depreciation Line (CARE-TDL) is an integrated accounting model that seeks to extend the fundamental principle of capital conservation to natural and human capitals. CARE-TDL seeks to enable companies to manage financial, natural, and human capitals harmoniously.<sup>59</sup>
- Ecosystem Natural Capital Accounts (ENCA) is a methodology that integrates a set of physical and socio-economic data relating to the sustainability of a territory's ecosystems on a local, national and global scale, with the view to summarise it in a financial, multi-criteria and geo-localised way.<sup>60</sup>
- System of Economic and Environmental Accounts (SEEA) is a framework that integrates economic and environmental data to provide a more comprehensive and multipurpose view of interrelationships between the economy and stocks of environmental assets.<sup>61</sup>
- Environmental Profit & Loss (EP&L) is the assessment of the external costs associated with six large categories of environmental impacts of an organisation across its entire value chain, including air pollution, GHG emissions, land-use change, waste production, water consumption and water pollution.<sup>62</sup>
- Natural Capital Protocol (NCP) is an accounting framework that is designed to assist companies make sound decisions regarding their interaction with nature and natural capital. The framework achieves this through presenting a standardised framework through which companies can 'identify, measure and value direct and indirect impacts (positive and negative) and/or dependencies on natural capital'.<sup>63</sup>
- Accounting For Nature is a certifiable environmental accounting framework which is used to inform better investment, policy and management decisions in natural capital including carbon co-benefits, green bonds, environmental offsets and impact investments.<sup>64</sup>

While these tools and approaches are still in their infancy, it can be expected that supply chain companies will increasingly adopt them as they become more mature in their approach to sustainability. This should enable businesses to integrate sustainability into their business activities and supply chains more effectively.

For example, in 2012, French luxury goods company Kering pioneered the use of EP&L method to assess the impact of their operations across the value chain. Kering has leveraged the EP&L method to identify the costs associated with environmental externalities of their products and have published the results annually since 2015. Adopting the EP&L has allowed Kering to integrate

the findings with business as usual (BAU) operations and sustainable sourcing efforts.<sup>65</sup>

The adoption of tools such as this will be a critical step forward in enabling environmental and social assets to be valued, and subsequently paid for. These tools will be a critical step forward in enabling environmental and social assets to be valued, and subsequently paid for.

### **The AASF as a critical translation layer between the farm sector and the broader supply chain**

As global reporting frameworks such as CDP, GRI and the TCFD evolve, it can be expected that the responsibility for businesses to disclose sustainability information throughout their supply chain will become more prominent. As this happens, companies and financial institutions will be seeking out ways to align supply chain sustainability targets and measurement with the requirements and criteria of these frameworks.

At present, several programs exist at the industry level across Australian agriculture. These programs, typically frameworks and schemes, stand to guide and monitor industry best practice and provide a communications mechanism on the sustainability priorities for a particular sector. For instance, the Australian dairy industry has developed the Australian Dairy Sustainability Framework which sets measurable goals relating to economic prosperity, nutrition, animal welfare and natural resource management. The Framework provides a baseline for dairy farmers to work towards.<sup>66</sup> The Australian cotton industry has developed an industry Best Management Practices program (myBMP) encouraging growers to adopt improved practices and participate in global sustainability programs.<sup>67</sup> In 2021, the AFI catalogued 40 global and domestic sustainability and best management practice programs across industries. This work identified that these programs enable a range of outcomes and rewards such as social licence to operate, trade and market access, and in some instances, may enable financial incentives and rewards.<sup>68</sup>

These programs have been adopted by the private sector to support corporate sustainability efforts, particularly to guide sustainable sourcing. For instance, in 2019, Coca-Cola Europacific Partners (CEP) announced that all sugar used in their non-alcoholic drinks range in Australia would be sourced from local growers that follow Bonsucro and Smartcane Best Management Practice frameworks.<sup>69</sup> London based company Burberry have set a goal to procure 100 per cent of cotton more sustainably by 2022, by working with partners such as the Better Cotton Initiative (BCI) and Textile Exchange.<sup>70</sup>

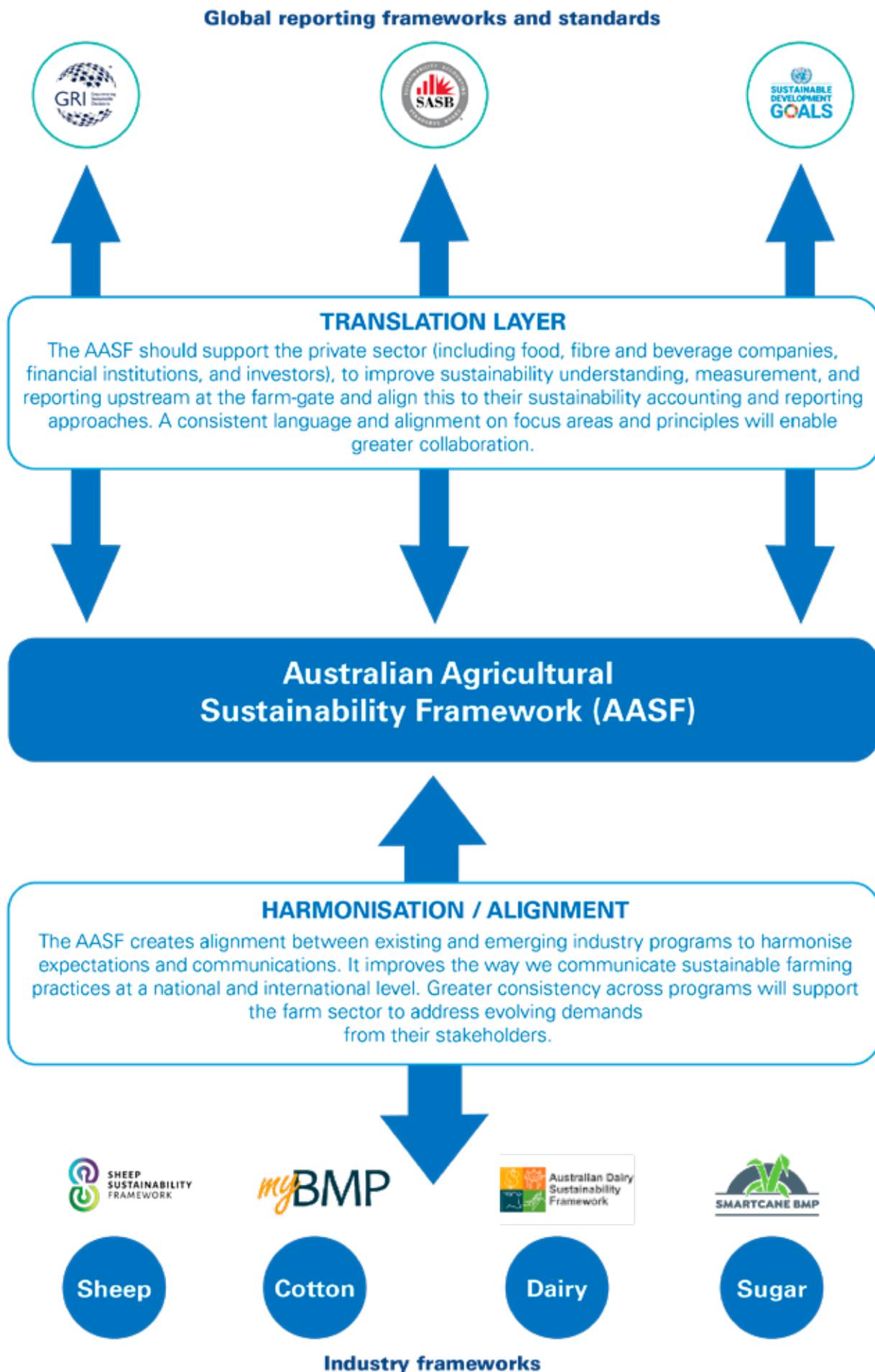
While industry programs have supported businesses to report and communicate their sustainability impact at the farm-gate, there is a lack of harmonisation across the programs and lack of a sector-wide position on sustainability. This creates several complexities, particularly for multi-enterprise producers and/or multi-commodity supply chain companies. The AASF can fill this gap, by providing guidance on the language, principles and criteria which are relevant to the sector as a whole.

Downstream, the framework can be used by companies to support sustainability reporting and disclosure. The framework has been designed so that the language, principles, and criteria are interoperable with global reporting frameworks such as the GRI Sector Standard for Agriculture, Aquaculture and Fishing. The framework effectively works at the intersection between on farm sustainability impacts and corporate sustainability reporting.

As the sustainability landscape evolves, the ability to identify, measure and report on sustainability at the farm-gate will become critical. The development of an overarching framework and common language, established through the AASF, will provide a starting point for organisations to integrate sustainability into their core operations and across their supply chains.



Figure 5: The role of the Australian Agricultural Sustainability Framework (example frameworks only)



Note: Frameworks and programs are examples only

# Distributing costs and creating shared value

## Accelerating sustainable farming practices

Whilst agriculture has an inherent impact on sustainability, it also can be a significant part of the solution. When sustainably managed, agriculture has the potential to sequester carbon, increase biodiversity, bolster food security, support local and regional economies, create jobs and improve economic resilience. The transition to sustainable farming practices also has the potential to deliver improved operational and financial outcomes. For instance, producers looking to adopt carbon farming practices will also experience a range of associated soil health benefits, such as increased water holding capacity, enhanced nutrient availability, reduced erosion and experience less severe incidences of drought and disease.<sup>71-72</sup> Additionally, farmers who implement shelterbelts can increase wool production by more than 30 per cent and weight gain in livestock by more than 20 per cent.<sup>73</sup>

However, farmers incur high costs of adopting and implementing sustainable farming practices. To date, the farm sector has proactively adopted sustainable practices and addressed sustainability risks, with little tangible benefit from supply chain partners. The system needs to be restructured so that rewards and recognition for sustainable outcomes are channelled upstream to the farm sector. Capital will be key in this restructure. Support and commitment in the form of incentivisation is needed from participants along the entire value chain: from supply chain companies, financial institutions, and governments.

## Financial incentives: The current state

KPMG and NFF's report *A Return on Nature*, published in 2019, supports the development of an ecosystem services market through which government, business, investors, and consumers support the farm sector to improve natural resources through sustainable finance approaches. It is within this market that financial incentives are quickly emerging as a potential avenue for rewarding sustainable outcomes.

Today, sustainable finance has established a foothold at the institutional level of companies, where a range of incentive instruments, mechanisms and approaches

have increased in the last decade. As the focus on corporate sustainability has intensified, a broad range of traditional financial instruments, such as bonds and loans, have been used to drive positive environmental and social outcomes. Increasingly, supply chain companies are leveraging these mechanisms to incentivise sustainability in their supply chains.

The repository for sustainable incentive mechanisms, instruments and approaches has increased in breadth, with each mechanism iterating to become more sophisticated. In response, the market landscape has also matured to support these incentive structures by developing cohesive policy frameworks, international agreements and audit, assurance, and verification methodologies.

The genesis of corporate sustainability incentives is analogous to the emergence of incentive structures that seek to recognise and reward on-farm sustainability. At present, farm-level incentive structures are in their infancy, with few incentives available to farmers. However, the maturation and scalability of these incentive structures are on the horizon. This proliferation of incentive structures will be accelerated by the movement of supply chain participants and financial institutions collaborating with the farm sector to drive positive sustainability outcomes.

## The role of supply chain companies

In response to the evolving market landscape, supply chain companies have increasingly stepped up to share the risk and costs of adapting to sustainable farming practices. The adoption of sustainable sourcing programs, as discussed earlier in this report, have enabled greater oversight and collaboration from buyers to suppliers. This linkage is subsequently enabling companies to leverage financing mechanisms to incentivise their suppliers. Ultimately, these mechanisms seek to address the working capital needs of suppliers to help them meet sustainability objectives. Currently, supply chain companies are adopting financing mechanisms the likes of capital investment, grants, price premiums, and supply chain finance.

Despite the potential of these solutions, the market remains at a nascent stage with only a handful of buyers having adopted them. Globally, capital investment in projects and infrastructure have scaled up, with companies leveraging this approach to strengthen their corporate social responsibility. An example of this is the Kellogg's Origins Program, through which the Kellogg Company has collaborated with over 440,000 farmers in 29 countries to promote climate, social and financial resilience.<sup>74</sup> Support is provided by means of technical assistance and training. In Australia, Kellogg Company have partnered with Mars Petcare, Manildra Group, Allied Pinnacle, Sustainable Food Lab, Charlies Sturt University and Food Agility to launch the Cool Soil Initiative in New South Wales through a AU\$2 million partnership to help 200 Australian wheat farmers adopt improved soil health practices.<sup>75</sup> Grant programs are also being adopted as a means of partnering with suppliers. Australian food retailers Coles and Woolworths have both launched funds dedicated to providing funding to Australian producers to innovate and grow, through the Coles AU\$50 million Nurture Fund<sup>76</sup> and the Woolworths AU\$30 million Organic Growth Fund.<sup>77</sup>

While the adoption of capital investment and grant funding mechanisms shows a commitment from supply

chain companies to partner with the farm sector, more needs to be done to channel dollars and cents directly to practice changes. There is a need for structural, tangible change where supply chain companies co-invest in and scale up new solutions. Price premiums and supply chain finance mechanisms are solutions which provide promise of transformational change.

The prevalence of price premiums, or bonus payments, attributed directly to on farm environmental and social outcomes in Australia are few and far between. However, they are beginning to gain traction in overseas markets. The New Zealand Dairy Industry is a leading example of this, seen through the launch of Synlait's Lead with Pride program<sup>78</sup> and Fonterra's Co-operate Difference Payment program<sup>77</sup> (see **Table 1** for more details).

Sustainable supply chain finance is also starting to gain a foothold in the global landscape. At its core, this approach takes regular supply chain finance and integrates ESG considerations to measure a supplier's sustainability performance. This measurement is used to determine an additional benefit, such as additional funding, for the supplier.



Table 1: Financial incentive structures deployed by supply chain companies

Instrument	Description	Agricultural Example(s)
Price premium	A price premium refers to the percentage by which a buyer exceeds the benchmark or market price for a product. Premiums can be paid directly to farmers for sustainable outcomes and can be used to cover the cost needed to transition to, and maintain sustainable practices.	<ul style="list-style-type: none"> <li>• Since 2010, Western Australian grain co-operative CBH Group has offered a premium of AU\$10 per tonne to certified sustainable growers. To participate in the scheme, canola growers are required to complete an international self-declaration through the ISCC. As part of the scheme, growers may be subject to an auditing process by an ISCC recognised body.<sup>80</sup></li> <li>• In 2016, food giant McDonald's finalised a Verified Sustainable Beef pilot in Canada; in which it tracked close to 9000 head of cattle to demonstrate how sustainable practices can be verified through the beef supply chain. This was the first program to incorporate principles and criteria from the Global Roundtable For Sustainable Beef (GRSB) across the entire beef value chain. Program participants received sustainability-oriented payments to the value of US\$10 per head in the first quarter of the program, and US\$20 per head in the second quarter.<sup>81</sup></li> <li>• Fonterra, a New Zealand dairy farming cooperative, introduced an incentive payment for farmers who meet sustainability practices as outlined in the co-operative's bespoke sustainability framework, 'The Cooperative Difference'. From June 2021, farmers who meet or exceed the requirements set out in the 'people &amp; community', 'environment', 'animals' and 'co-op and prosperity' categories of the framework are rewarded with a price premium of up to 7 cents (NZ) per kilogram of milk solids (kgMS). An additional 3 cent (NZ) premium (per kgMS) is available to farmers who achieve a milk quality rating of 'excellent' for a minimum of 30 days during the season.<sup>82</sup></li> <li>• Since 2020, New Zealand milk nutrition company Synlait, have leveraged price premiums as a mechanism to recognise environmentally and socially sustainable dairy farmers through their 'Lead with Pride' program. Farmers who meet best practice and are certified under Synlait's scheme are paid a premium about a base milk price.<sup>83</sup></li> </ul>

Table 1(Cont'd): Financial incentive structures deployed by supply chain companies

Instrument	Description	Agricultural Example(s)
Grant funding	<p>A grant is a sum of money which is awarded to a company to provide financing for specific purposes, or to support the delivery of desired outcomes.</p> <p>Supply chain participants will deploy grant funding to support producers in the transition and management of sustainable farming practices. Grants and funding are relatively easy to implement; they are scalable across practices and geographies and accessible by virtually all farmers.</p>	<ul style="list-style-type: none"> <li data-bbox="786 456 1477 965">In 2018, Australian supermarket chain Woolworths entered a partnership with Heritage Bank to launch the Woolworths Organic Growth Fund. The Fund supports investment in organic horticulture projects in Australia. This initiative has allocated a total of AU\$30 million to invest over a 5-year period through a series of grants and interest-free loans, each to the maximum value of AU\$500,000. The Fund will distribute grants to projects with a higher risk profile, such as research and development into new and innovative organic farming practices and technologies. Whereas interest-free loans will be allocated to businesses to boost medium and long-term organic fruit and vegetable supply and must be repaid in full within 5 years of issue. The grant will be distributed by Woolworths, whilst interest-free loans will be issued by Heritage Bank.<sup>84</sup></li> <li data-bbox="786 987 1477 1554">In 2021, French luxury goods brand Kering, launched the Regenerative Fund for Nature to support the transition towards regenerative farming practices. The Fund aims to transform 1 million hectares of agricultural land to regenerative farming practices through a grant program focussing specifically on leather, cotton, wool and cashmere production systems. Kering has identified 17 countries, including Australia and New Zealand, as priority geographies. Grants will be made available to farming groups, project developers and NGOs who are able to test, prove and scale regenerative practices. The expected total grant size for each project is between AU\$180,000 and AU\$920,000, to be spread over 1-3 years. The Fund seeks to use science-based tools and methodologies to track the progress of projects and measure results.<sup>85</sup></li> </ul>

Table 1(Cont'd): Financial incentive structures deployed by supply chain companies

Instrument	Description	Agricultural Example(s)
Supply chain finance (SCF)	<p>Supply chain finance describes a range of financial products that support trade transactions by extending credit to supply chain partners to provide working capital.</p> <p>SCF programs involve downstream buyers partnering with a financial institution to stimulate their suppliers to become more sustainable by delivering tangible benefits, such as discounted interest rates for suppliers with strong sustainability performance.</p> <p>SCF may offer farmers preferential credit rates, payment terms, or access to a premium buyer and/or market. As companies shift towards assessing the environmental and social performance upstream in their supply chain, it can be expected that SCF mechanisms will become common and more sophisticated.</p> <p>Several multinational supply chain companies have developed and launched SCF programs</p>	<ul style="list-style-type: none"> <li data-bbox="786 456 1477 846">• In 2017, global fashion brand Levi Strauss &amp; Co initiated a partnership with the International Finance Corporation, a World Bank organization, to pilot opportunities to leverage low interest debt instruments to reduce the sustainability impact of their suppliers. The first instalment of the program supported six suppliers to reduce their scope 1 emissions by an average of 20 per cent. In 2019, the program was expanded to US\$2.3 million to support a further 36 suppliers through discounted financing based on the supplier's sustainability rating, as assessed by Levi's bespoke sustainability scorecard.<sup>86</sup></li> <li data-bbox="786 860 1477 1093">• In 2019, HSBC and US retail giant Walmart partnered to extend a sustainability linked SCF program to the retailer's suppliers. As part of the program, Walmart's suppliers who demonstrate progress in their sustainability criteria, as assessed against Walmart's bespoke Sustainability Index Program, will have access to will access to discounted financing from HSBC.<sup>87</sup></li> <li data-bbox="786 1106 1477 1397">• In 2021, Citi Bank launched its first sustainability linked SFC program with German chemicals and consumer goods company Henkel. The program will focus on the company's operations in Australia, providing finance to suppliers at discounted rates on a tiered basis. The size of the discount will increase as the supplier's sustainability score improves. Suppliers will be assessed by an independent sustainability assessment agency.<sup>88</sup></li> <li data-bbox="786 1411 1477 1800">• In 2021, British retailer Tesco partnered with multinational bank Santander to develop a program to encourage suppliers to sign up to science-based emission reduction targets. The program is voluntary and will require participants to provide annual greenhouse gas emissions data to be verified by an independent assurance provider. Santander will provide preferential rates to suppliers based on their carbon data disclosure, emission reduction targets and progress against sustainability goals. Tesco intends to regularly update the scope of sustainability data requirements in line with market best practice.<sup>89</sup></li> </ul>

## The role of financial institutions

There has been substantial growth in sustainable solutions in the finance sector. These solutions include several types of bonds (such as green, social, and blue bonds), various loan products (such as green, social, and sustainable loans) as well as ESG focused instruments like sustainability linked loans and revolving credit facilities. These types of financial mechanisms have existed for years; however, it is only recently that their uptake has accelerated. This acceleration has been supported by the adoption of frameworks such as the TCFD (as discussed on page 18).

The banking sector plays a critical role in sustainable transformation in agriculture, acting as the backbone to enable change. Banks can link the availability and pricing of finance with their client's sustainability performance, effectively incentivising best practice.

Globally, several large-scale mechanisms have been announced by leading food and beverage companies. In 2020, agricultural giant Bunge Limited announced its first sustainability linked revolving credit facility, valued at US\$1.75 billion.<sup>90</sup> The facility links Bunge's interest rate to its performance on sustainability targets, which includes

increased traceability on its agricultural commodity supply chains; and increased sustainable practices for soy and palm oil. Loan discounts as per sustainability performance with a margin varying from 0.3 per cent to 1.3 per cent based on ratings and sustainability performance.<sup>91</sup> In the same year, Olam secured a three-year sustainability-link revolving credit facility aggregating US\$250m. The interest margin on the facility is linked to the achievement of sustainability key performance indicator (KPI) improvement targets, which include outcomes associated with regeneration of the living world, thriving communities, and prosperous farmers and food systems.<sup>92</sup>

These incentives structures are beginning to emerge in Australia. CBA announced Australia's first sustainability linked loan for agriculture in July 2021, followed by the industry's first Agri Green Loan pilot in November 2021. Earlier in the year, Agricultural insurer Achmea Australia announced that they would offer premium discounts to Australian cotton farmers who engage in sustainable farming methods and who are certified through the Best Management Practices program (myBMP) (see Table 2 for more details). These advancements signify an enhanced commitment by Australia's finance sector to partner with and support the farm sector to improve sustainability.

Instrument	Description	Agricultural Example(s)
Green bond	A fixed income financial instrument that is created for the purpose of raising investments for new and existing projects with environmental benefits in exchange for a promise to back the principle, alongside payments called coupons.	<ul style="list-style-type: none"> <li data-bbox="786 1263 1477 1711">In October 2019, PepsiCo issued its first ever Green Bond, a 30-year US\$1 billion bond structure offered with a fixed coupon rate of 2.875 per cent per annum. The net proceeds are to be allocated towards investments in 'Eligible Green Projects', which are defined as new and existing investments in three categories: sustainable plastics and packaging, decarbonisation of operations and the supply chain, and water sustainability. Investments are evaluated and selected by PepsiCo's in-house sustainability team. As of the 31st of December, PepsiCo had allocated US\$858 million in proceeds to Eligible Green Projects with individual investments spanning 5 continents and ranging from US\$60 thousand to US\$14 million.<sup>93</sup></li> <li data-bbox="786 1733 1477 2051">In 2021, US food and beverage manufacturer Mondelez issued a US\$2.38<sup>94</sup> billion green bond. The green bond consists of US\$773 million of notes with a coupon rate of 0.0250 per cent per annum due in 2029, a further US\$773 million worth of notes with a rate of 0.625 per cent due in 2032, and a third round of notes for a further US\$833 million with a rate of 1.250 per cent due in 2041. The green bond will fund producers focussed on sourcing sustainable ingredients, reducing waste in packaging, and tackling climate change.<sup>95</sup></li> </ul>

Instrument	Description	Agricultural Example(s)
Sustainability linked loans (SLL)	A debt instrument that rewards the borrower with lower costs of funding if pre-agreed improvements in sustainability performance are being met and/or exceeded.	<ul style="list-style-type: none"> <li data-bbox="786 398 1461 719">• In 2020, agricultural commodities giant Bunge Limited announced its first sustainability linked revolving credit facility, valued at US\$1.75 billion. The facility links Bunge's interest rate to its performance on sustainability targets, which includes increased traceability on its agricultural commodity supply chains, as well as increased sustainable practices for soy and palm oil. Loan discounts as per sustainability performance with a margin varying from 0.3 per cent to 1.3 per cent based on ratings and sustainability performance.<sup>96</sup></li> <li data-bbox="786 741 1461 965">• In 2020, Olam secured a three-year sustainability linked revolving credit facility to the value of US\$250m. The interest margin on the facility is linked to the achievement of sustainability KPI improvement targets, which include outcomes associated with regeneration of the living world, thriving communities, and prosperous farmers and food systems.<sup>97</sup></li> <li data-bbox="786 987 1461 1308">• In 2021, New Zealand ethical investor Southern Pastures entered a sustainability linked loan with Bank of New Zealand (BNZ). The loan will be trialled over a period of three years, in which time Southern Pastures will receive financial incentives based on their ability to reach pre-agreed environmental goals on farm, as a discounted interest rate on their NZ\$50 million loan. The goals include qualitative targets on nitrogen leaching loss, carbon reduction, as well as increases in diverse pastures and native planting area.<sup>98</sup></li> <li data-bbox="786 1330 1461 1588">• In 2021, CBA entered a sustainability linked loan facility with premium Queensland beef producers Stockyard Group. The three-year loan facility sets clear parameters for Stockyard Group across emissions reduction, animal welfare and people wellbeing. The loan facility will tie pricing with five metrics, including the reduction of scope 1 and 2 emissions, improved animal welfare outcomes and workplace health and safety innovations.<sup>99</sup></li> </ul>





Instrument	Description	Agricultural Example(s)
Conversion loan	A form of concessional finance that provides discounted credit to the borrower to enable practice change. These products are often characterised by favourable repayment terms with the aim of providing liquidity to the borrower.	<ul style="list-style-type: none"> <li data-bbox="788 837 1461 1155">• Pipeline Foods and Rabobank have teamed together on a new Organic Transition Loan. Founded in 2017, Pipeline Foods is the first U.S.-based supply chain solutions company focused on accelerating the availability and reliability of organic, non- genetically modified, and regeneratively grown food and feed. Its purpose is to contribute to a healthier, traceable, and more sustainable food system. In 2019, Pipeline Foods partnered with Rabo AgriFinance, a subsidiary of Rabobank and a leading financial services provider for agricultural producers.<sup>100</sup></li> <li data-bbox="788 1189 1445 1473">• In late 2021, CBA announced their intention to pilot a low-rate loan to support agribusinesses lower emissions, improve their resilience to climate variability, and enhance their natural capital. The loan product will provide participants with funding at discounted rates to invest in prescribed activities to deliver against these outcomes. Throughout the program, CBA will verify that the proceeds of the loan are used for defined, eligible purposes.<sup>101</sup></li> </ul>
Insurance discounts	The reduction of insurance premiums to incentivise behaviour change in the insured party. Discounts can reflect the relative reduction of risk resulting from the implementation of prescribed on-farm practices.	<ul style="list-style-type: none"> <li data-bbox="788 1556 1445 1809">• Announced in May 2021, agricultural insurer Achmea Australia will offer premium discounts to cotton growers who engage in sustainable farming methods. Eligible farmers are required to provide proof of certification through the myBMP program, a voluntary farm and environmental management system administrated by Cotton Australia. The premium discount will be offered through Achmea's All-in-One-Farm Pack product.<sup>102</sup></li> </ul>



## The role of government

Amidst the range of current global sustainability challenges, there is increasing dialogue exploring the unique role of government in shaping and supporting markets to address issues such as climate change and biodiversity loss. Supply chain participants have traditionally faced a range of barriers which have restricted their ability to engage in activities that contribute towards the transition to sustainability practices. These barriers may include the lack of a fit for purpose regulatory framework to support the adoption market opportunities, such as financial incentive structures, or the uncertain risk to return profiles of sustainability-oriented financial activities, including those outlined above. It is within this context that governments have begun to explore their capacity to catalyse sustainable change in agricultural supply chains. Governments have explored these roles through acting as a:

**Market Steward:** Refers to the role of government in establishing marketplaces by convening participants and achieving scale, setting policies to ensure efficient and desired outcomes, setting market regulation to create

optimum market conditions, and correcting information asymmetries through the creation and administration of data, metrics, and standards (e.g., The Biodiversity Indicator Program convened by the NSW Government).

**Market Participant:** Refers to the role of government as an active market participant by allocating capital to catalyse economic activities that deliver sustainable outcomes. This includes investing in emerging technologies (i.e., on-farm renewables or precision agriculture), acting as the first mover to explore the risk profile of sustainable agricultural production systems, or de-risking and scaling mechanisms that reward sustainability activities and outcomes on-farm through co-investment or underwriting schemes.

Governments can also play an important role in supporting the private sector, by setting regulations which provide guidance on where to allocate capital to deliver sustainable outcomes, ensuring corporate compliance with relevant regulations (i.e., sustainability disclosure requirements), and to encourage improvement by the private sector on sustainability issues relevant to the agricultural sector.

## Case study: The role of government as a market participant

### *The Clean Energy Finance Corporation Teams up with the Kempen Farmland Fund*

In 2021, The Clean Energy Finance Corporation (CEFC), an Australian government-owned green bank, partnered with the Kempen Farmland Fund to invest in underperforming

small to medium sized farms to implement the latest technologies to lift productivity and optimise land use.

Kempen, a European asset manager, will invest an initial AU\$50 million in the program, alongside an additional AU\$50 million from the CEFC. The core objective of the program is to reduce the carbon intensity of underperforming farming enterprises and to share learnings from the program with other investors and financiers.

# Key takeaways

## Ongoing considerations as the market for financial incentives matures:

The KPMG analysis validates that: despite the growing commitment by supply chain companies and the private sector to improve agricultural sustainability, the adoption of sustainable finance mechanisms is at a nascent stage. Ultimately though, the market needs to quickly mature to a point where there are demonstratable benefits to the farm sector. The increasing demand for transparency by market participants must come with an incentive.

For too long the farm sector has adopted new practices to meet evolving market demand with little tangible support from supply chain partners. There is now an opportunity to rebalance the costs across participants and drive enhanced partnership across value chains. However, mobilising financial incentives at scale is complex and a myriad of solutions will be required to progress beyond the current state. This will require the contribution of multiple participants. Supply chain companies, financial institutions, investors, consumers and governments all have a role to play to support the farm sector to adopt and maintain sustainable practices. In summary:

- Supply chain companies are at the heart of the solution to incentivising the farm sector to adopt sustainable practices. They are ultimately responsible for capturing end to end supply chain sustainability information. Market forces are driving increased pressure for these companies to measure, manage and disclose supply chain sustainability impacts. At the same time, companies are realising the value creation opportunities which arise from implementing sustainability initiatives, including increased profit potential. A portion of this profit needs to be channelled to the farm sector to incentivise the production of premium and sustainable products. There are a range of mechanisms which can be deployed by these companies which foster greater collaboration and provide incentive for the farm sector, such as: price premiums, grants, and supply chain finance. However, these mechanisms are currently hindered by lack of access to sustainability information and data from the farm gate, and in many cases, a lack of knowledge by the companies on agricultural sustainability.
- Financial institutions are a key enabler within the sustainability ecosystem and powerful agents of change. They can provide a suite of products, directly to farmers and indirectly through the supply chain, to

promote the adoption of sustainable practices.

- Investors also have a key role to play. A growing number of large institutional investors are incorporating ESG metrics into their capital allocation criteria, which has a profound impact on supply chain corporations, effectively incentivising them to improve their sustainability performance. Investors are now asking companies to disclose their ESG impact, and increasingly, they are expanding the disclosure requirements to include supply chain impacts.
- Governments will play a key role in encouraging the private sector and farm sector to adopt and scale sustainable outcomes. Governments can support a smooth transition of the food system through a variety of tools to create and highlight rewards as well as incentivise the desire to improve sustainability-focused performance. Governments should pave the way by creating a supportive environment with effective incentives and regulations which enable the other participants.
- Consumers play a critical role in influencing supply chain sustainability. They are becoming increasingly aware of the environmental and social footprint of their purchases, and subsequently, raising their expectations on supply chain companies.

Collaboration between these participants will be essential.

Rebalancing the costs and putting a value on sustainability will ultimately require a composite set of solutions. At present, several initiatives are currently underway which seek to place a value on natural capital, biodiversity, and/or carbon. For instance, under the Carbon + Biodiversity pilot, part of the Australian Agriculture Biodiversity Stewardship Package, farmers who undertake plantings for carbon can receive additional payments for maximising biodiversity benefits for these plantings. Initiatives such as this play an important role in providing demonstratable benefits to the sector through tangible rewards.

For the market to mature and for financial incentives to scale, a definition for 'Australian agricultural sustainability' as well as a consistent set of principles and criteria will be key. **Herein lies the value of the AASF.** The AASF reflects the current market evolution and widescale

adoption of an ESG approach to sustainability. As identified throughout this report, companies, investors, and consumers are expanding their focus away from sustainability as a singular focus and transitioning to values-based approaches which encompass a myriad of sustainability touchpoints and characteristics. It is critical that the Australian agriculture sector can communicate performance across all sustainability elements ranging from environment, social and animal welfare, to economics and governance. This is what supply chain companies, financial institutions, and investors are demanding.

The AASF, as a central source of information for Australian agricultural sustainability, will enable greater collaboration between the farm sector and the private sector and can be used by businesses and financial institutions to design and develop sustainability initiatives related to agriculture. Clear alignment on language, principles and criteria will support the shift towards a standardised approach to structuring financial incentives. Replication will enable a faster rate of scale.

More broadly, the categories, principles and criteria can be incorporated into initiatives such as sustainable sourcing programs and financial incentive mechanisms. The benefit from all organisations leveraging the framework is a more cohesive and consistent approach. Equally, for the farm sector, the AASF outlines an authoritative set of sustainability focus areas and a clear set of goals to work towards, ultimately mitigating ambiguity around downstream demand and market requirements.

In summary, finance for sustainable agriculture is nascent, but it is growing, and it shows promise. Multiple participants will need to convene and collaborate to shift the dial, and this will need to be underpinned by a myriad of different tools. While the AASF is only one part of the solution, it enables many other parts. The multidimensional, multiscale, and multipurpose nature of the framework ultimately positions it as the backbone for agricultural sustainability at large, providing a common reference point for all elements of sustainability, understood by all participants across different jurisdictions.



## Ensuring the success of the framework

The Australian Agricultural Sustainability Framework (AASF) is a positive step towards enabling farming communities to be recognised and rewarded for adopting sustainable farming practices. In the context of the broader market maturing, the success and scalability of the framework require several considerations:

1. **Do it once, do it right:** The industry will only have one shot at launching a framework of this nature. While Phase 2 has involved a robust framework design process, Phase 3 pilot trials will be critical to ensure the design is tangible and fit for purpose. Feasibility will need to be proven before the framework can go live.
2. **Obtain buy in:** The success of the framework will depend entirely on the uptake and buy in from the range of associated stakeholders. The value proposition, role, and responsibilities for each stakeholder group including industry, government, and the private sector need to be clearly defined. There needs to be a clear and robust communication strategy to drive initial and ongoing engagement, and to bring all stakeholders to the table.
3. **Industry program alignment:** Outline how the framework will be continually updated and improved in line with updates to relevant industry frameworks and provide guidance to industries on how their respective frameworks should be updated in line with the AASF. Establish a cadence for the AASF ownership team to engage with the relevant industries and scheme owners.
4. **Provide education to industry on the breadth and purpose of the framework:** The overarching nature of the framework, as a representation of agricultural sustainability across all geographies and commodities, has the potential to cause confusion for industry and producers as some of the categories, principles and criteria may not be relevant to their respective industry. The AASF owner should work closely with industries to educate them on the purpose and breadth of the framework, including collaboratively identifying and assess the most pressing categories relevant for individual industries (i.e. importance of animal welfare within the livestock industry). This will help to reduce confusion and support the uptake and adoption of the framework.
5. **Identifying the required tools and infrastructure to support the deployment of the framework:** The framework cannot operate in isolation and it will need to be interoperable with existing industry programs, additional data sources and digital technologies. Trusted on farm data will be key to operationalising the framework.
6. **Work collaboratively with the private sector:** The framework owner will be responsible for championing the framework in discussions with ecosystem partners such as supply chain corporations and financial institutions. They should work collaboratively with these stakeholders to ensure updates to the framework are made in line with updates to market transformations (such as global reporting frameworks). They will also be responsible for representing the framework in the design and development of future financial incentives. This could include using the framework as a point of reference in sustainability roundtable discussions, effectively providing validity and credibility for the Australian agricultural sector to contribute to broader market sustainability discussions.
7. **Provide education to the farm sector to shift the focus away from product attribution to holistic sustainability:** Carbon opportunities are gaining interest across the Australian farm sector with many enterprises channelling efforts towards capturing and measuring carbon sequestration. This should not overshadow the wider benefits adoption of sustainable farm practices can offer enterprise wide. The scope of the AASF is comprehensive, including landscape practices, social and animal welfare, economics, natural capital and environment characteristics. It is, and must remain, a multidimensional, multiscale, and multipurpose vehicle to promote Australian agriculture's sustainability in an all of its facets for all of its audiences. More communication and education needs to be targeted towards the farm sector to promote recognition of the comprehensive breadth and criticality of the AASF.
8. **Establishing a process of continuous improvement:** Moving forward, continuous improvement of the framework will be essential. The framework will need to be continually updated to ensure it stays in line with market movements such as regulations and the adoption of new global reporting frameworks. Updates to the framework will need to be made in consultation with all relevant stakeholders, and a robust communication strategy to continually inform and educate the farm sector will be critical.





# Acronyms

Abbreviation	Definition	Abbreviation	Definition
AASF	Australian Agricultural Sustainability Framework	IFRS	Integrated Financial Reporting Standard
AFI	Australian Farm Institute	<IR>	Integrated Reporting
ANZ Bank	Australia New Zealand Bank	ISCC	The International Sustainability and Carbon Certification
APRA	Australian Prudential Regulatory Authorities	ISSB	International Sustainability Standards Board
ASIC	Australian Securities and Investment Commission	kgMS	Kilogram per milk solids
ASX	Australian Securities Exchange	KPI	Key Performance Indicator
AUD	Australian Dollar	MRL	Maximum Residue Limit
BAU	Business As Usual	NAB	National Australia Bank
BCI	Better Cotton Initiative	NFF	National Farmers' Federation
BMP	Best Management Practices	NGO	Non-government Organisation
BNZ	Bank of New Zealand	NZD	New Zealand Dollar
CBA	Commonwealth Bank of Australia	SASB	The Sustainability Accounting Standards board
CBAM	Carbon Border Adjustment Mechanism	SBTi	Science-based Targets initiative
CDP	Carbon Disclosure Project	SDG	Sustainable Development Goals
CDSB	Climate Disclosure Standards Board	SLL	Sustainability-Linked Loan
COP	Conference of Parties	SEEA	System of Environmental Economic Accounting
COVID-19	Corona Virus Disease 2019	SCF	Supply Chain Finance
CSIRO	Commonwealth Scientific and Industrial Research Organisation	TCFD	Taskforce on Climate-related Financial Disclosures
EBITDA	Earnings before interest, taxes, depreciation, and amortization	TNFD	Taskforce on Nature-related Financial Disclosures
ENCA	Enabling a Natural Capital Approach	UK	United Kingdom
EP&L	Environmental Profit & Loss	UNPRI	United Nations Principles for Responsible Investment
ESG	Environmental, Social and Governance	UNPRB	United Nations Principles for Responsible Banking
EU	European Union	UNSDGs	United Nations Sustainable Development Goals
FSB	Financial Stability Board	US	United States
G7	Group of Seven	USD	United States Dollar
GHG	Greenhouse Gases	WBC	Westpac Banking Corporation
GRDC	Grain Research and Development Council	WEF	World Economic Forum
GRI	Global Reporting Initiative		
GRSB	Global Roundtable on Sustainable Beef		
IASB	International Accounting Standards Board		

# Glossary

## **Biodiversity**

Biodiversity includes diversity among and within species and ecosystems. Changes in biodiversity can influence the supply of ecosystem services. Biodiversity, as with ecosystem services, must be protected and managed sustainably.

## **Blended Finance**

The complementary and strategic use of public, private and philanthropic funds to increase private sector investments and sustainable development, resulting in positive results for both investors and communities. Blended finance transactions can be structured in conjunction with other market-based mechanisms, such as carbon credits and certification.

## **Capital Markets**

The part of the financial system in which money is channelled into productive investments in equity, debt and other medium to long-term financial instruments.

## **Debt**

Funds borrowed from a lender that the borrower promises to repay following the terms of a contract. The borrower usually has to repay the initial funds borrower, as well as interest, namely, regular payment of a sum calculated as a percentage of the funds borrowed (interest rate)

## **Environmental, Social and Governance (ESG)**

A set of non-financial indicators or standards for a business. For new investment opportunities, investors or lenders use ESG to evaluate corporate behaviour, screen investments and determine sustainability impact and investibility.

## **Equity**

Equity involves raising money by selling interest in the company or alternative assets. Typically, equity holders receive decision making power which can be exercised as voting rights.

## **Green Bond**

A fixed income financial instrument created to raise investments for new and existing projects with environmental benefits in exchange for a promise to pay it back, alongside payments called coupons.

## **Incentives**

Strategies used by public and private sectors to encourage farmers to engage with sustainability activities and outcomes that are beneficial.

## **Institutional Investors**

Entities that pool money to purchase securities, real property, and other investment assets or originate loans are known as institutional investors. These include banks, insurance companies, pensions, hedge funds, real estate investment trusts, investment advisors, endowments, and mutual funds – all of which invest on behalf of their members.

# Appendices

Tool	Description
Comprehensive Accounting In Respect to Ecology – Triple Depreciation Line (CARE-TDL)	The CARE-TDL integrated accounting model extends the fundamental principle of capital conservation to natural and human capitals. With a view to sustainability, CARE-TDL suggests extending this principle to all types of capital, enabling the organisation's financial, natural, and human capitals to be maintained.
CDP	The CDP, formerly known as 'The Carbon Disclosure Project', was founded in 2000 as a non-for-profit charity that promotes the disclosure of environmental impacts for investors, companies, cities, states and regions.
Climate Disclosures Standards Board (CDSB)	<p>The Climate Disclosure Standards Board (CDSB) is a non-profit organisation working to provide material information for investors and financial markets by integrating climate change-related information into mainstream financial reporting.</p> <p>An international consortium of business and environment Non-government Organisations (NGOs) committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.</p>
Climate Bonds Initiative (CBI)	The CBI is an international organisation working to mobilise the bond market to fund climate change solutions. One of three core functions of the CBI is the standard setting and certification scheme for bonds, defining investments that contribute to the low carbon economy.
Ecosystem Natural Capital Accounts (ENCA)	ENCA is a methodology that integrates a set of physical and socio-economic data relating to the sustainability of a territory's ecosystem on a local, national, and global scale, with the view to summarising it into a financial, multi-criteria and geo-localised way.
Environmental Profit and Loss (EP&L)	EP&L is the assessment of the external costs associated with six large categories of environmental impacts of an organisation across its entire value chain: air pollution, GHG emissions, land use change, waste production, water consumption, and water pollution.
Global Reporting Initiative (GRI)	GRI is an independent international organisation that has pioneered corporate sustainability reporting since 1997. GRI produces the most widely used sustainability reporting standard internationally, offered as a free public good. With thousands of reporters in over 90 countries, GRI enables organisations and their stakeholders to make better decisions on these issues. GRI reporters include Australia's largest companies, such as IAG, BHP Billiton, Aurizon, ANZ, Stockland, Westpac, APRA, AMCOS and Aurecon.
Integrated Reporting Framework <IR>	IR is an integrated management tool (financial, environmental, and social) for companies. Ultimately, <IR> is a concise message focusing on how an organisation's strategy, governance, performance, and prospects, within the context of its external environment, lead to value creation in the short, medium and long term.
Loan Market Association (LMA) Guidance on Green and Sustainable Finance	The LMA is an industry organisation committed to improving liquidity, efficiency, and transparency in global loan markets. A core part of this remit is to establish widely accepted market practices. The LMA has established guidance on green and sustainable finance by outlining best practice principles on Green Loans, Social Loans and Sustainability linked loans.
Natural Capital Protocol (NCP)	The NCP is an accounting framework designed to assist companies in making sound decisions regarding their interaction with nature and natural capital. The framework achieves this through presenting a standardised framework through which companies can 'identify, measure and value direct and indirect impacts (positive and negative) and/or dependencies on natural capital.
Sustainability Accounting Standards Board (SASB)	<p>Founded in 2011, SASB is a non-profit organisation that develops sustainability accounting standards. SASB Standards enable businesses worldwide to identify, manage and communicate financially-material sustainability information to their investors - across 77 industry standards.</p> <p>In 2018, the Sustainability Accounting Standards Board (SASB) published a set of 77 globally applicable industry-specific standards which identify a minimum set of sustainability issues most likely to impact the operating performance or financial condition of the typical company in an industry, regardless of location.</p>
Science Based Targets Initiative (SBTI)	The Science Based Targets Initiative (SBTI), is a program that provides companies with a clearly defined pathway to reduce their greenhouse emissions in line with the goals of the Paris Agreement.

# Appendices

Tool	Description
System of Environmental-Economic Accounting (SEEA)	The System of Environmental-Economic Accounting (SEEA) is a framework that integrates economic and environmental data to provide a more comprehensive and multipurpose view of the interrelationships between the economy and the environment and the stocks and changes in stocks of environmental assets
Task force on Climate-related financial disclosures	In 2015, the Financial Stability Board developed voluntary, consistent climate-related financial risk disclosures for use by companies to provide information to investors, lenders, insurers, and other stakeholders. It considers the physical, transition and liability risks associated with climate change.
Taskforce on Nature-related financial disclosures	Currently, under development, this task force builds upon the model of the TCFD as a framework for organisations to identify and analyse business activities that have a material impact on biodiversity.
United Nations Environment Programme Finance Initiative (UNEP FI)	<p>Developed by the United Nations Environment Programme Finance Initiative (UNEP FI), a partnership between the United Nations and the global financial sector to mobilise private sector finance for sustainable development. The UNEP has more than 350 members, including banks, insurers, and investors. The UNEP FI consists of three programs:</p> <ul style="list-style-type: none"> <li>• The Principles for Responsible Investment (PRI)</li> </ul> <p>Published in 2006, the PRI works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. At present, there are over 3,000 signatories of the PRI.</p> <ul style="list-style-type: none"> <li>• The Principles for Sustainable Insurance (PSI):</li> </ul> <p>Launched in 2012, the PSI assist the insurance industry's ability to understand, manage and carry risk, protect society and foster innovation. The principles intend to drive the integration of ESG into decision making to contribute to a well-functioning and sustainable society.</p> <ul style="list-style-type: none"> <li>• The Principles for Responsible Banking (PRB):</li> </ul> <p>Published in 2019, the PRB is the guiding principles by UNEP for the banking sector. To date, the principles have been supported by 197 banks collectively, representing 40 per cent of the global banking industry. The PRB include a requirement to set targets, drive alignment with appropriate Sustainable Development Goals (SDGs), The Paris Agreement and other relevant international, national, or regional frameworks.</p>
United Nations Sustainable Development Goals (UN SDGs)	The UN Sustainable Development Goals are a set of goals that seek to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. The SDGs are generally accepted as the international language for communicating the sustainable development initiatives of businesses, industries, and countries.



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