National
Farmers
Federation

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Sustainable Finance Unit
Climate and Energy Division
Department of the Treasury
Langton Crescent
Parkes ACT 2600

Via email: SustainableFinanceConsultation@treasury.gov.au

RE: Sustainable Finance Strategy

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the length and breadth of the supply chain. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF. The NFF seeks to ensure that any legislative reform does not have a perverse or adverse impact on agricultural productivity.

Overview

The NFF welcomes the opportunity to provide a submission to Treasury on the proposed Sustainable Finance Strategy to guide ongoing policy development and regulatory engagement on sustainable finance in Australia.

Agriculture has undertaken significant effort to improve its sustainability, having invested significant time and resources towards reducing on-farm emissions and improving efficiencies in production. This is an important and complex discussion that necessitates extensive, ongoing discussion with the agriculture sector.

Climate Disclosure Obligations and Scope 3 Data Challenges

The NFF is concerned about the emergence and impact of climate- and nature-related financial disclosure reporting requirements, especially in the context of Scope 3 obligations. As previously articulated in our '*Climate-Related Financial Disclosure: Second Consultation*' submission to Treasury, in the current context, the farm sector is opposed to formalising Scope 3 emissions reporting. We remain opposed irrespective of proposed tranche timeframes unless and until we gain clarity on coverage and threshold activation numbers, as well as the impacts of shared cost and time commitment compliance requirements. We understand other sectors also hold significant concerns.

To complement ongoing and extensive action to reduce emissions in alignment with several sector-based target ambitions, the agriculture sector has been heavily focused and engaged in ensuring credible carbon calculators are developed for public use. A brief list is detailed below. As a complex sector encompassing a variety of commodities, this will take considerable time to progress. It is difficult therefore to envisage how the sector will be able to provide “high quality” reporting in an efficient manner to satisfy Scope 3 CRFD obligations under the proposed timeframe.

Name/Title of Carbon Calculator	**Scope 1 and 2 Estimation**	**Scope 3 Estimation**
MLA Carbon Calculator (SB-GAF Tool Digitised Version)	✓	✓
Australian Dairy Carbon Calculator	✓	✓ (Limited Estimation)
HortCarbon Info	✓	✓
Greenhouse Accounting Framework Tools	✓	✓
Australian Wine Carbon Calculator	✓	✗

It is important to note that carbon calculators are not the only mechanism developed by producers that audit and demonstrate sustainable production. These calculators are purpose designed for carbon.

For example, systems that identify on-farm natural capital assets (e.g., carbon and biodiversity) like ‘AgCarE’ and ‘Farming for the Future’ (FftF) are being developed by industry to provide individual landowners a unique assessment of natural capital condition and the sustainability of agricultural practices.

While carbon calculators have been developed for various farm applications, no benchmarking system to ensure the credibility and consistency of their output estimations has been implemented. As such, there exists a concern that the agriculture sector will be unable to provide ‘high quality’ Scope 3 disclosures as desired. NFF is concerned about what mechanism for reporting climate disclosures will be used. If carbon calculator outputs are considered an unverifiable and/or insufficient tool to satisfy this obligation, the next-level step may involve farm-scale biophysical measurement. Small- and medium-scale operating farm entities will be likely unable to meet this threshold for Scope 3 reporting without undertaking substantial cost, and lack the necessary skill-base, technology access, or economic incentive to do so. Agriculture is a complex sector comprised of many small individual operating entities which do not have the experience or internal/accessible capacity to undertake complex assessments of emissions status.

Any proposed reporting requirement by Government must acknowledge, accommodate, and be designed around the inherent variability of agricultural emissions reporting.

It is also critical that Government recognise the complexity of the agriculture sector and the variable nature of its emissions output when considering the design of proposed sustainability reporting requirements. Natural rainfall variability renders it difficult for small enterprise reporting to be of any value. Given the journey toward sustainability for each farm operation is uniquely different, Government must refrain entirely from implementing Scope 3 reporting for the agriculture sector, and if unavoidable, an extended formal timeframe beginning 2035 at the earliest must be a consideration.

Opportunities for Government to Support Companies

To help support the agriculture sector develop the required skills and capability to make CRFD disclosures under the new proposed obligations, Government must work in coordination with the AASB to ensure a common methodology indicator to benchmark carbon calculators is developed. Treasury have recognised that carbon calculators have inherent issues, all efforts to address these must be actioned with priority.

Treasury must also initiate early and proactive outreach across all affected industry groups. While we appreciate several information sessions have been convened to discuss the content around these proposed reforms, the farm sector is disappointed that Treasury continues to develop these activities without engaging or notifying those who have already provided submissions to previous discussions involving this topic. The design of reporting requirements is an issue that significantly affects the farm sector. Agriculture must be consulted throughout the process; this must not be a process driven exclusively by the finance sector. We therefore recommend an immediate convening of a land-sector specific consultation with NFF and other stakeholders (including RDCs) to better understand the challenges around these issues. The development and public release of a succinct guidance document from Treasury regarding how the proposed reporting guidelines will work in-practice would also be appreciated.

Our Treasury CRFD Submission and NFF Climate-Related Financial Disclosure Policy document is attached as **Appendix Item 1 and 2.**

Preparation for Sustainability-Related Financial Disclosure Frameworks and Standards Including TNFD: Government, Regulators, and Industry

Sustainability-Related Financial Disclosure (SRFD) frameworks and standards (TCFD and TNFD) are being developed across a range of countries, and discussion around design and implementation have already commenced in Australia. Government, regulators, and the financial industry must recognise that the sharing and disclosure of project data to satisfy proposed obligations is a sensitive issue and one that has its own attached risks. NFF holds the view that industry-sector reporting must be protected and remain confidential where appropriate, and that the supply of information to financial institutions should be avoided to ensure such institutions do not discriminate against various industry groups. Appropriate safeguards should be built in frameworks and standards to protect reporting entities.

The mechanism for reporting will need to be the subject of significant consideration. It is of concern to NFF that the development of Australian climate-disclosure requirements by the AASB will not just allow but promote each individual reporting entity to develop their own reporting framework. As for agriculture, a Scope 3 participant, may be confronted with a variety of reporting mechanisms that essentially report the same information. This is an unacceptable, inefficient, and inconsistent approach. To prepare for the development of SRFDs, Government must initiate a conversation and engage with regulators and a cross-section of industry including agriculture to develop a reporting code of practice. As previously detailed, the first step towards achievement can begin with an immediate land-sector targeted consultation (and broadened in due-course).

Sustainable Finance Taxonomy

The NFF supports the development of an Australian Sustainable Finance Taxonomy as a key foundation of the Strategy, with an initial focus on climate mitigation objectives. The Taxonomy must remain a tool for consistency not a surrogate for mandating and regulating industries by proxy.

The agriculture sector is keenly aware of the increasing demand for more consistent and credible information about whether on-farm and supply chain assets or activities are aligned with the transition towards net-zero and other sustainability goals. The increasing demand for consistent and clear information is undeniable, from the likes of financial institutions, trading partners, consumers, or other parties in our agricultural supply chains.

The agriculture sector is making proactive strides to demonstrate our sustainability through evidence-based credentials and support relevant and consistent data collection. This work is being done at a national level through the Australian Agricultural Sustainability Framework (AASF) and through various commodity-focused sustainability frameworks and schemes.

While agriculture continues its declining trajectory in total GHG emissions in alignment with several sector-based target ambitions, the achievability of net-zero remains a distinct impossibility. This is an outcome recognised by DCCEEW in its ‘Emissions Projection 2023’ report.

The development of a Sustainable Finance Taxonomy will support agriculture’s increasing sustainability reporting requirements and more importantly, facilitate sustainable investment in the sector.

The NFF supports the proposed approach, and strongly supports the guiding principles which outline that an Australian Sustainable Finance Taxonomy should:

- Support the mobilisation of private capital towards sustainable activities;

- Be developed in a collaborative manner between Government and industry, with strong governance arrangements;
- Be credible and science-based;
- Effectively incorporate a role for transition finance. The transition criteria must not preclude agricultural activities. It is key that we avoid a situation where farmers do not meet transition criteria and are forced to obtain financing on less favourable terms;
- Develop criteria for climate objectives first, while establishing a foundation to expand to other sustainability objectives (such as nature and circularity in the economy);
- Include a robust approach to '*Do No Significant Harm'* where taxonomy regulation establishes a list of environmentally sustainable economic activities. An activity can demonstrate its sustainability if it substantially supports at least one of the listed areas while not significantly harming any other; and
- Have an overarching focus on practicality, useability, and international operability.

It is imperative that these guiding principles act and remain as a guidance only, and not become an enabling processes where direct recommendations are provided to guide future investment decisions. The taxonomy must remain a framework for sustainable finance and not used to regulate or mandate the adopting of sustainable practices in the agriculture sector. The NFF agrees with the need to recognise activities or technologies which are necessary to support the transition to net-zero in the short to medium term, and therefore require continued investment and financing, even if they are not *entirely* consistent with net-zero or other goals in the long term. An example relevant to agriculture is the use of biofuels, a renewable, drop-in alternative fuels with considerable positive sustainability outcomes, including a lower but not always 'net-zero' emission intensity.

The NFF urges Treasury to ensure thorough consideration of the implications of the proposed taxonomy on specific industries, and how the taxonomy will intersect with existing industry sustainability reporting frameworks, such as the AASF. Key industries including agriculture must be involved in the development of the taxonomy from the initial development phase. It is our view that the design process of nature-based sustainable finance must be scientifically informed, and priority input be given to agriculture stakeholders alongside the finance sector.

Greenwashing: Priorities and Assessment of Existing Laws

It is the position of the NFF that existing corporation and financial service laws are sufficiently flexible to address greenwashing. As companies look to build a sustainable brand image and capture growing consumer demand for green products, NFF recognises that such advancement will be coupled with an increase in greenwashing claims. Companies and industry must refrain from misrepresenting their actions and making inaccurate statements as this unfairly misleads consumers, artificially distorts the market to the disadvantage of existing competition, and more importantly, misrepresents the actions of producers.

While the NFF remains open to prospects of further regulation to address greenwashing and inaccurate reporting, it is our view that existing and new legislative processes must not introduce additional reporting requirements such as sustainability disclosures.

In the first instance, Government must seek proactive engagement with farmers to support them produce food and fibre. Regulation must always be seen as a last resort policy option. Additional reporting requirements to address greenwashing could create unnecessary regulatory obligations and burdens for compliant businesses to adhere. Producers must not wear the burden and responsibility of increased reporting to meet regulatory compliance. This is not our issue to solve alone on behalf of the community. The design of future legislative reform should prioritise measures to target and separate compliant from non-compliant entities, and ensure regulatory obligations target specific elements of the supply chain, and not create regulatory burdens for all. We recognise this is challenging, and as such, to the degree in which existing laws address greenwashing, we are content.

Our submission to the Senate Inquiry into Greenwashing dated June 2023 is available below as **Appendix Item 3.**

<u>Regulating ESG as Financial Services</u>

ESG is essentially an assessment of a business risk profile. As there is an increasing demand for the data that underpins a business's ESG credentials, there is a risk of increased demand for data and regulatory pressure, flowing along the supply chain to the farm-level.

It is critical for ESG requirements to be practical for producers. Most Australian agricultural businesses are small, family enterprises that do not have the resources or knowledge to report to the depth that some financial services are beginning to require.

<u>Natural Capital Data Frameworks</u>

Farmers have a high-level awareness about the importance of sustainability, and many recognise the role that natural capital plays in sustaining the productive capacity of their farms for the long term. As awareness and understanding about the values brought to society from the conservation of our environment have increased, farmers have been expected to not only continue to produce low cost, quality commodities, but to also respond to these societal imperatives around sustainability. This includes managing and restoring their natural capital not only for on-farm benefit and sustainable production, but also for environmental outcomes.

The measurement and valuation of natural capital is essential for recognising and building the strengths of Australian landscapes in financial, environmental, community, cultural and spiritual terms. The measurement, restoration and building of natural capital introduces new economic threads into the canvas that maps rural communities across Australia and can help agricultural businesses grow and thrive.

The concept of natural capital has the potential to reconcile economic and environmental interests by integrating the value of natural capital in decision making. Valuing natural capital makes this possible. Although, research into the value of natural capital on farms and the externalities faced by agriculture has to date been inadequate. This is due to insufficient quantification of natural capital value and environmental services. FftF is the first major investment to attempt to address this deficiency, through providing the evidence and practical support that producers need to incorporate natural capital as part of farm business decision making. Other industry solutions include the Natural Capital Measurement Catalogue. NFF supports the proposal to strengthen the understanding of natural capital but stresses the importance of keeping farmers at the centre of this development. The last thing the industry needs is prescriptive frameworks that are impractical and unnecessarily burden producers.

Additionally, under current market arrangements, there are no ongoing rewards for farmers who invest in maintaining, restoring, and increasing the natural capital on their properties. It is therefore prudent to consider how the value of natural capital can be incorporated into market-based frameworks so that the benefits of sustainability across social, environmental, and economic values can be realised by farmers.

Data Challenges and Australian Sustainability Leadership

As articulated above, the Australian agriculture sector – through the AASF – has been developing an international leading national translation framework to communicate the sustainability goals and status of Australian agriculture to the international market and community. The AASF will evolve to articulate to our trading partners and consumers the sustainability performance of our agricultural export products, and how industry production systems align with current international sustainability initiatives and benchmarks (i.e., SAFA, SAI, and GRI). It does so by laying forth a unified understanding of sustainability objectives through a standard set of principles, and criteria. By aligning sector-specific and supply chain terminology, the AASF fosters stakeholder coherence and enables better communication of industry-wide sustainability goals.

The AASF is a leading framework in this domain as few frameworks of similar vigour and detail have been developed in the international arena. To further strengthen industry development of the AASF, Government must be more transparent in the sharing of any Government-held data and information. Increased sharing of data across Government-industry channels will support ongoing activity to develop the framework and demonstrate

Australian sustainability in concordance with established global climate adaptation and mitigation objectives.

The NFF thanks the Treasury for the opportunity to provide a submission to this consultation. We look forward to further engagement on this developing issue and await the publication of the Implementation Roadmap in due course. Please do not hesitate to contact Kade Denton, General Manager (Trade and Economics) via e-mail: KDenton@nff.org.au, or Warwick Ragg, General Manager (Natural Resource Management) via email: WRagg@nff.org.au.

Yours sincerely,

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