

National  
Farmers  
Federation

# Parliamentary Inquiry into Environmental, Social, and Governance (ESG)

March 2024



## NFF Members



The National Farmers' Federation (NFF) is the voice of Australian farmers.

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 breadth and the length 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 represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

The NFF thanks the Committee for the opportunity to provide a submission into the Parliamentary Inquiry into Environmental, Social, and Governance (ESG).

## What is Environmental, Social, and Governance (ESG)?

There are varying definitions for ESG, some more suited to agriculture. The Australian Agricultural Sustainability Framework (AASF), borrows its ESG definition from the Corporate Finance Institute:

*“A framework that helps stakeholders understand how an organization is managing risks and opportunities related to environmental, social, and governance criteria (sometimes called ESG factors). ESG takes the holistic view that sustainability extends beyond just environmental issues.”*

## What is/are the process/es employed or undergone by entities to craft ESG frameworks?

In the context of Australian agriculture, ESG frameworks are constructed to align with market expectations, often those of our international markets. They are born from a need to address a pressing 'issue' for the industry. Naturally, individual commodity frameworks are responding to different market expectations and sustainability challenges for each industry. For a mixed farming enterprise, participating in multiple commodity frameworks can be difficult.

Aligned to environmental, social and governance (ESG) factors, the Australian Agricultural Sustainability Framework (AASF) is the first country-specific tool to articulate the sustainability of Australian agriculture on a whole-of-industry basis.

### Development

Led by the NFF, funded through a grant under the Australian Government's National Agriculture Traceability Grants Program, the AASF aims to address the challenges faced by primary producers in participating in various sustainability-related programs.

Development of the AASF including mapping of international schemes and initiatives, those that have alignment include:

- SAI Platform (The Australian Sustainable Agriculture Initiative)
- ISO (International Organization for Standardization)
- GRI (Global Reporting Initiative)
- SAFA (Sustainability Assessment of Food and Agriculture systems)

- United Nations Sustainable Development Goals

The initial framework structure was delivered in mid-2022, informed by extensive industry consultation, an expert reference group, parallel discovery projects coordinated by NFF and a comprehensive review of domestic and global sustainability frameworks.

The AASF sets out a unified understanding of sustainability objectives through a standard set of themes, principles and criteria. The themes encompass environmental stewardship, wellbeing of people, animals and the community, and bolstering economic resilience. By aligning sector-specific and supply chain terminology, the AASF fosters stakeholder coherence and enables better communication of industry-wide sustainability goals.

Meeting the growing demand for evidence of sustainability credentials from both international and domestic markets, the AASF helps the Australian agriculture secure expand trade opportunities while maintaining its social license. It prepares the industry for upcoming sustainability reporting requirements such as the those that may come from the Taskforces for Climate-Related and Nature-Related Financial Disclosures.

In addition to supporting commodity frameworks like dairy, beef and sugar, which cater to specific international markets and supply chains, the AASF further enhances the industry's credibility by further aligning with globally recognised sustainability schemes and standards.

### **Current Delivery**

The AASF seeks to engage industry, government and other industry stakeholders through the AASF Community of Practice. This is an online forum where project updates and other relevant information is shared, to encourage discussion and contribution to the framework from CoP members. The AASF CoP meets in-person biannually and hosts regular online meetings to keep the Community engaged.

The current AASF funding is supporting a number of implementation projects; including:

- **CSIRO Data Ecosystem**

The project is enabling priority stakeholders to understand the mechanisms by which the data needed to support the use of the AASF can be identified and assessed for suitability. The data ecosystem will have a robust plan to develop appropriate supply arrangements to support ongoing availability and use of this data.

- **AASF Guidelines & Pilots**

The AASF Pilot Guidelines and Self-initiated Pilots provide the opportunity to use the Australian Agricultural Sustainability Framework in a business/organisational context. Pilot Guidelines are providing a framework for the development of NFF-led pilots.

- **AASF Materiality Assessment**

A double materiality, financial and impact materiality assessment, the AASF materiality assessment assesses the financial impacts, and risks and opportunities the Australian agriculture sector, faces because of their dependence on the environment and society. It also assesses the actual and potential impacts of the Australian agriculture sector on the environment and society over the short-, medium and long-term.

- **AASF Prototype Reports**

The AASF Prototype Reports collate available information against the AASF Principles and criteria to ascertain appropriate indicators, measures and metrics, drawn from aggregated information held in domestic commodity frameworks and related national data sets.

- **Development of a Strategic Plan, Operations and Governance Arrangements**

## What is the current status of ESG initiatives in South Australia, interstate and internationally relative to:

### a) entities using the framework;

Domestic frameworks, schemes, and initiatives of note, operating nationally (most including South Australia):

- Australian Agricultural Sustainability Framework
- AgCarE (operated by AgForce QLD)
- Australian Beef Sustainability Framework
- Australian Dairy Sustainability Framework
- Australian Organic
- Australian-Grown Horticulture Sustainability Framework
- Behind Australian Grain (Australian grain sustainability framework)
- My BMP (Cotton)
- Sheep sustainability Framework
- Smartcane BMP
- Sustainable Winegrowing Australia

### b) reporting standards; and

Reporting standards for sustainability or ESG reporting mechanisms are inconsistent across Australian agriculture and internationally. The CSIRO Data Ecosystem, funded as part of the AASF, is looking to address access to common datasets, that can support consistent reporting across all industry frameworks and initiatives and produce a toolbox.

Many industry frameworks & schemes seek to align with international standards (examples) as their international markets increasingly demand they do so.

The project is enabling priority stakeholders to understand the mechanisms by which the data needed to support the use of the AASF can be identified and assessed for suitability. The data ecosystem will have a robust plan to develop appropriate supply arrangements to support ongoing availability and use of this data.

### c) measuring impacts

A notable initiative that is underway in Australia is Farming for The Future (FFTf). FFTf is a research program initiated by the Macdoch Foundation and aims to quantify relationships between on-farm natural capital and the productivity, profitability, and resilience of Australian producers.

The research program is currently finishing up phase 2 where fine scale financial, ecological and social data was collected from 120 Australian livestock businesses via field surveys, producer interviews, and remote sensing. The participating livestock farms were selected in regions across Victoria, New South Wales, Tasmania and Western Australia. The preliminary results so far indicate that:

- High levels of farm productivity are possible from both intensive livestock enterprises (with low natural capital) and those with higher natural capital. Although high natural capital farms are more profitable in financial terms;
- There are different 'benefit pathways' through which natural capital can support farm businesses, including via improving productivity, and/or reducing input costs; and



- Most of the relationships between natural capital and farm business performance that were observed was positive and linear. This means that most farms in our sample, and similar farms within the broader farming population, could improve their business outcomes by improving their natural capital.

Each participating farm in the project receives a detailed natural capital and financial report. The natural capital reports are created using a range of indicators that look at the structural characteristics of the farm, its position in the broader landscape, as well as biophysical aspects of the farm that are directly driven by management actions.

Additionally, the reports contain some environmental performance indicators such as greenhouse gas emission estimates, carbon sequestration, and resource use efficiency estimates. The intent behind this is to provide farmers with a rich set of measures they can use to inform natural capital management decision-making and to support information needs in working with their supply chains.

In this initial phase of the project the broad range of indicators will allow the program to evaluate which work most effectively in the analysis. Allowing for refinement of the indicators to be used in future phases. It is important to note that the findings thus far are only preliminary results on livestock farms in geographically confined areas. This is the beginning of an expanding research area.

The next phase of the program is phase 2+ where research will be expanded to include 400 livestock, cropping and mixed farm enterprises across NSW, Victoria, Tasmania, Western Australia, South Australia, and Queensland. These will be representative of farms across the full extent of Australia's wheat-sheep belt and will provide insights into the role that natural capital can play in supporting production from this key agricultural region.

The work of FFTF is critical in the scope of ESG as it not only creates methodology for measuring natural capital, but it is also providing a robust data set to inform a producer to maximise their sustainability and profitability. You can't manage something you can't measure. Additionally, FFTF seeks to be open source to encourage continued innovation in this area.

## What are the pressures and opportunities for primary producers in SA regarding ESG?

### Pressures

The NFF holds some concerns around reporting requirements. A notable example being the Climate-Related Financial Disclosure exposure draft released by the federal government in January of this year. This bill seeks to mandate climate-related financial reporting for businesses of a certain size. The major concern the NFF holds around this is that agriculture is not exempt from scope 3 reporting for these businesses. Whereby initial transition costs to achieve regulatory compliance will pose significant regulatory burden.

The federal government through Minister Watt as recently as February 2024 has reiterated how *"there's no policy being considered or implemented by the Australian government around herd reduction. Both minister Bowen and I have already made clear that we are not proposing to introduce an emissions reduction target specifically for the ag sector"* (Minister Watt 13 February 2024 - Rural and Regional Affairs and Transport Legislation Committee).

With Government making clear that there is no intention to set targets for Agriculture there should not be imposed targets set by a business in order to access their service due to a scope 3 ESG requirement.

With other ESG frameworks on the horizon such as the Taskforce for Nature-Related Financial Disclosures (TNFD) the NFF is concerned that a farmer would have to report multiple different metrics into different formats for reporting. This would see a significant capital and in-kind investment with no direct return on investment. Ideally, the NFF would like to see a scenario where a producer could (if they choose) measure once and be able to apply those results to all reporting requirements.

### Opportunities

The farm sector has been quite active in addressing reporting. For an extensive period of time the agriculture sector has been heavily focused and involved in ensuring that credible carbon calculators are developed for public use. These include some of the following:

- Meat and Livestock Australia Carbon Calculator;
- Australian Dairy Carbon Calculator 2023;
- HortCarbon Info;
- Greenhouse Accounting Framework Tools; and
- Agricultural Innovation Australia beta Environmental Accounting Platform.

These farm-scale calculators are still nascent and need to be benchmarked to ensure they are providing consistent outputs.

Further, there is continued and strengthened investment into innovation required.

There are a range of technologies being developed by industry which include some of the following (by no means is this an exhaustive list):

- Low emission anti-methanogenic feed supplements;
- Supplement delivery mechanisms into grazing systems;
- Methanotrophs bacteria;
- Improved genetics;
- Soil carbon sequestration;
- Slow-release and coated fertilisers;
- Electrification and biofuels;
- Precision agriculture; and
- Other novel approaches not yet developed.

## What does an ESG leader in primary production in SA look like and what are the pathways to get there?

The existence of an 'ESG' leader is a misleading description. Any primary producer who wishes to maintain or enhance market access, continue to have access to capital and continue to run a financially sustainable business could be considered an 'ESG leader'. Businesses should make informed business decisions. One decision paradigm is the adaptation to sustainability reporting, ESG or otherwise.

The NFF thanks the Committee for the opportunity to provide a submission to the inquiry. Please do not hesitate to contact Warwick Ragg, General Manager (Natural Resource Management) via email: [WRagg@nff.org.au](mailto:WRagg@nff.org.au) at the first instance to progress this discussion.

Yours sincerely,



**TONY MAHAR**  
Chief Executive Officer



National  
Farmers  
Federation

Leading  
Australian  
Agriculture

NFF House  
14-16 Brisbane Avenue  
Barton ACT 2600

Locked Bag 9  
Kingston ACT 2604

(02) 6269 5666  
reception@nff.org.au  
nff.org.au



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@NationalFarmers

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