



Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury
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Friday 21 July 2023

Re: Australian Dairy Industry Council Submission to the second Consultation Paper on Climate Related Financial Disclosure.

The Australian Dairy Industry Council (ADIC) appreciates the opportunity to provide comment on Treasury's second Consultation Paper on Climate Related Financial Disclosure (CRFD) which *seeks views on the detailed implementation and sequencing of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. This includes whether the proposed positions relating to coverage, content, framework and enforcement of the requirements are workable, with quantification of costs and benefits of the proposals invited.*

This submission has been developed in consultation with our industry partners and members. The ADIC submission builds on our commentary to the first consultation paper.

The industry knows that climate is a key risk for dairy, and has been moving to reduce, measure and report on emissions through the Australian Dairy Sustainability Framework (ADSF) for over 10 years. A suite of initiatives – both pre and post farmgate – support the ADSF targets. A number of our members are already subject to the mandatory reporting requirements for scope 1 and 2 emissions under the National Greenhouse Energy Reporting Scheme (NGERS), and gender and diversity under the Workplace Gender Equality Agency (WGEA) and the Modern Slavery Act. A number of dairy processing businesses also prepare a public sustainability report using standards such as the Global Reporting Initiative (GRI) – with most of Australia's processed milk volume represented by these disclosures.

However, we raise strong concerns with what is proposed in the second consultation paper. These must be addressed before any new requirements for CRFD reporting in Australia can be considered. Namely the proposed implementation periods and what is able to be reported on by the start date, due to the lack of and/or immaturity of data, processes and current capability, business costs, and implications downstream to farmers. This includes the ability to effectively report on scope 3 emissions, the interplay between existing company and industry metrics versus those that may be developed, the lack of guidance on scenario planning, the lack of capability and capacity to report on assurance, and the unrealistic liability expectations. Treasury is holding an assumption that the CRFD work has been complete, to then be able to report on.

Each of these concerns will be addressed in more detail below.

We have also included examples of cost implications related to the proposed introduction of mandatory CRFD reporting, noting the huge cost impost to both dairy farmers and processors.

The Australian dairy industry

Dairy is the third largest Australian rural industry and a key sector of the agricultural economy, with a farmgate value of \$4.9 billion and a direct workforce of almost 35,000 across dairy farms and processing¹. Dairy companies generate approximately A\$15.7 billion in sales². Our reputation for delivering high quality, nutritious dairy products that are enjoyed locally and around the world is second to none, exporting 36% of our milk production valued at \$3.8 billion (2022)³.

The ADIC is the peak national representative body of the Australian dairy industry, representing the interests of dairy farmers and processors through its two constituent bodies Australian Dairy Farmers and the Australian Dairy Products Federation.

Australian Dairy Farmers (ADF) is the national body representing dairy farmers in Australia. Its members comprise the state dairy farming organisations and dairy farmers in all six of Australia's dairy farming states.

The Australian Dairy Products Federation (ADPF) is the national peak policy body representing commercial, post farm-gate members of the Australian dairy industry, including processors, traders and marketers of Australian dairy products. ADPF members process more than 90% of Australian milk volumes and provide dairy products for both domestic and export markets.

Dairy Australia (DA) is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry.

The Australian Dairy industry is focused on continuous improvement in both dairy farm and processor practice.

For over 10 years, we have operated under the leadership of the ADIC [Australian Dairy Sustainability Framework](#) (ADSF)⁴, with a sustainability promise 'To provide nutritious food for a healthier world' – aligned with the United Nations Sustainable Development Goals. Launched in 2012, the Sustainability Framework has publicly reported on the industry's sustainability improvements under four sustainability commitments, each with goals and measurable indicators: enhancing livelihoods; improving wellbeing; providing best care for animals; and reducing our environmental impact.

Goal 10 focuses on reducing emissions intensity across the whole industry (farm and dairy companies), with a target of 30% reduction in emissions intensity by 2030 based on 2015-16 levels.

Australian dairy farms are among the lowest GHG emissions intensity generators globally – with an average 0.93 kg CO₂e/kg Fat and Protein Corrected Milk (FPCM) and continue to actively work on initiatives to reduce this.

Post-farmgate, dairy processing businesses continue to strengthen their understanding and commitment to sustainability and climate action through more targeted goals and transition plans.

The 2020-21 Dairy Manufacturers Environmental Scorecard outlines progress from dairy processors towards the ADSF's 2030 targets, showing a 25.5% reduction in dairy manufacturers greenhouse gas (GHG) emissions intensity since 2010-11, equating to a 27% reduction in absolute GHG emissions⁵.

¹ [In Focus](#) 2022, Dairy Australia

² Deloitte Access Economics (2021) Economic contribution of the Australian dairy processing sector.

³ [In Focus](#) 2022, Dairy Australia

⁴ Australian Dairy Industry Sustainability Framework.

⁵ Dairy Manufacturers Sustainability Council (2021). Environmental Scorecard 2020-21.

Dairy processors have also reduced solid waste sent to landfill by 6.5% per ML of raw milk processed (compared to 2019/2000), a 46% reduction since 2010/11.

There has been an increase in individual manufacturer sustainability reporting. Some processors already provide information in their company reports that is consistent with the proposed recommendations of the Taskforce on Climate-related Financial Disclosures. For example, Fonterra Australia, The Bega Group, Lactalis Australia and Saputo Dairy Australia all produce sustainability reports that include carbon and climate-related information, alongside their Annual Reports.

Reporting for processors currently focuses on scope 1 and 2 emissions.

Scope 3 emissions for dairy processors would include accounting for supplier emissions – including dairy farm emissions. This accounting is not yet mature and is an area of focus and development for the dairy industry.

Dairy farmers are concerned that the regulatory burden of reporting of scope 3 emissions, if not scope 1 and 2 emissions, will be directly and indirectly imposed upon farmers by passing these requirements down the supply chain from retailer to processor to farmer via contractual requirements or other means.

Farmers are concerned that given the lack of maturity in the market, including lack of associated time, expertise, resources and tools to enable farmers to meet regulatory requirements, that this will have unintended consequences, such as stifling productivity and more significantly forcing unintended non-compliance given the inability of the market to comply – in addition to the significant cost impost of compliance (which will ultimately come out of the farmers milk cheque, whether it will be scope 1, 2 or 3). This is an unreasonable regulatory burden.

Industry is working to develop the adoption of relevant tools such as the latest version of Dairy Australia's [Australian Dairy Carbon Calculator](#) – *government support is required to expand this capacity and capability amongst both dairy farmers and processors, to better understand baseline GHG emissions and measures to reduce it.*

Second consultation paper: Specific comments towards climate disclosure

Aligned with the four categories in the second consultation paper on CRFD, the dairy industry outlines the following concerns that require immediate attention before any new requirements for CRFD reporting requirements in Australia can be considered. Namely:

1. Reporting entities and phasing

▪ Implementation period

- The International Standard Sustainability Board (ISSB) has only recently issued the final CRFD standard (June 2023), with further guidance expected to be released throughout the second half of 2023.

As per the Australian timetable, the Australian Accounting Standards Board (AASB) is due to release the Australian CRFD standard in Q2 2024, subject to passage of legislation.

The proposed implementation date for reporting requirements by Group 1 entities is 2024/25 (FY25).

No timeframe is allowed for review of the international CRFD standard to take lessons from its effectiveness, risks and areas for improvement. We would encourage an assessment period to

be introduced, and/or for Treasury, Australian Securities and Investment Commission (ASIC) and the AASB to engage with the ISSB on when this kind of assessment can be made.

- There are also gaps in the current capability and capacity of businesses to report on all of the proposed CRFD requirements noted. Whilst certain allowances have been made for scope 3 emissions, there are similar gaps or concerns around the advice on financial materiality (and understanding how this applies to other mainstream standards currently in use by dairy processors, specifically the Global Reporting Initiative), and scenario analysis and the methodology.
- There will need to be considerable investment in capacity building – not only in dairy sector, but all sectors. This will take considerable time and investment in resources and capability – even if a phased implementation period is adopted.

For the dairy industry, this must be considered in the context of the current operating environment. Dairy businesses are already subject to a range of environmental, food safety, animal health and financial audits and reporting requirements. Mandatory reporting on sustainability includes scope 1 and 2 emissions under the National Greenhouse Energy Reporting Scheme (NGERS), gender and diversity under the Workplace Gender Equality Agency (WGEA) and Modern Slavery Act. And, Australian dairy processors are already contending with a tough domestic trading environment marked by low volume growth, exorbitant overhead and input costs, a decline in global prices and rapid growth in import competition.

- Implications up and down stream

- The proposed scope of emissions reporting required (i.e., scope 1, 2 and 3) will impact other businesses up and downstream. Requiring large dairy processing businesses to report on scope 3 emissions as part of the Group 1 entities/ 2024-25 timeline, will, by default, place requirements on the associated farm/s and other suppliers who contribute to a processor's scope 3 emissions.

Measurement of emissions at farm is an emerging area and needs significant investment to reach maturity. And likewise, there is no standardised methodology for reporting of scope 3 emissions are amongst dairy processors (*see below for further detail*).

And, in many cases businesses (small and large) may already be measuring their emissions in some form, however including them within the scope of required CRFD entities will lead to significant additional costs.

Treasury and/or AASB need to make it clearer what they mean by 'the expectation of increasing rigour in scope 3 emissions over time', which is moving from an estimation 12 months into the first cycle, to disclosing data subject to a level of assurance considered to be reasonable.

More advice needs to be developed for entities which may already be subject to reporting or information requirements in other jurisdictions through ownership structures and/or supply chain relationships (e.g., the EU Corporate Sustainability Reporting Directive).

Treasury and government must also be mindful of the requirements of exporting businesses, whom should not have additional hurdles to meet that our overseas competitors do not need to. For example, the EU has initiated its own reporting requirements for climate change which are similar but not identical to the ISSB standards. These will also apply to some companies not headquartered in the EU.

- No allowance for review and monitoring in between implementation periods
 - As per the proposed implementation timeframe, there is no allowance in between Groups 1, Group 2, and Group 3 to assess what has worked and the areas for improvement. Delayed implementation of the Groups could allow for example, scenario analysis to be reviewed and assessed for maturity and fitness to the stated purpose – noting the need to balance the correct phasing period for Australian CRFD requirements, without impeding any market opportunities, nor competitive disadvantages.

Recommendations:

- I. **Treasury and the Australian Accounting Standards Board (AASB) should further consider the appropriate implementation timeframe for any new CRFD reporting requirements in Australia upon completion of both the Policy Impact Analysis and the first consultation of the draft Australian CRFD Standard, also allowing for time to understand lessons learnt from the implementation and monitoring of the international CRFD standard.**
- II. **Rather than needing all proposed CRFD requirements to be reported from the outset for Group 1 entities, this could also be phased (e.g., starting with governance, existing climate-related targets, scope 1 and 2 emissions, and transition planning) – and expanded upon once methodologies, capacity and capability are developed for the other proposed requirements.**
- III. **Further advice and guidance on any agreed CRFD requirements are needed, with industry working collaboratively with government.**

2. Reporting Content

- Financial materiality
 - The consultation paper proposes that the principles of financial materiality would apply.

In practice, the development of further advice is needed on the relationship between this proposal and impact-based and multi-stakeholder standards currently in mainstream use by global and domestic dairy processors, specifically the Global Reporting Initiative. Duplicating existing requirements just adds costs – greater recognition of current reporting practice (be it voluntary or mandatory) would be a better outcome.

Notwithstanding Treasury's view on double materiality in the consultation paper on climate disclosures, this needs to be seriously considered in any approach, to the likely adoption of the IFRS S1 General Requirements in Australia.

- Scenario analysis
 - The second consultation paper proposes that from commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative analysis by end state.

It also proposes that from commencement reporting entities would be required to disclose climate resilience assessments against two possible future states, one of which must be consistent with the global temperature goal set out in the Climate Change Act 2022.

The consultation paper says that 'entities would need to consider the transition risks associated with achievement of the global temperature goal set out in the Climate Change Act 2022, which is to contribute to 'holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels' (i.e., the Paris Agreements global temperature goal).

Entities would also report against at least one other scenario that reflects different climate futures, such as the Australian government's commitment to reduce emissions by 43% by 2030 and net zero by 2050.

Stakeholder feedback from the first consultation paper highlighted the need for scenario analyses to be phased to enable capability and capacity to be built, and that the development of useable Australian-specific climate related scenarios for the corporate sector remains in its infancy.

Consistency and standardisation of scenario analyses across firms is paramount to enable meaningful comparisons – aligned with the mission of the CRFD standard which is to provide consistent and comparable information for investors.

The lack of clarity of methodology alone poses risk.

The dairy industry proposes the role of industry associations in working with government to determine appropriate scenarios to underpin climate disclosures for their sector, which can then be applied to individual business based on their own risk and cash flow, as an example.

- Metrics and Targets

- *Scope 3 emissions:* the consultation paper proposes that disclosure of material scope 3 emissions is required for all reporting entities from their second reporting year onwards, and can be made for any one-year period that is 12-months prior to the current reporting period. Estimates can be provided in the immediate term and improve over time (with scope 3 methodologies assured at a minimum while capability is being developed).

The Australian dairy industry continues to invest in research to estimate scope 3 emissions and gather information which is "fit for purpose" to industry decision-making, mitigation efforts and progress reporting. Currently, this does not reflect the annual emissions of each and every individual dairy farm in Australia – which would be a very costly exercise. More detailed guidance is needed on Treasury and AASB's expectations regarding data improvements "over time."

For many businesses, the reporting entity has little control over Scope 3 emissions – including the ability to check for accuracy. Compelling companies to report scope 3 emissions and be accountable for the accuracy of these reports, will add a considerable cost and risks to the business, with limited, if any opportunity to influence the actual emissions.

For dairy processors, scope 3 emissions are largely centred around on-farm emissions, where measurement is not yet mature – with our concerns and requirements for farmers, and cost impost, clearly articulated on page 3. Dairy Australia's recently updated Australian Dairy Carbon Calculator tool allows farmers to determine their carbon footprint. To date, less than 20% of dairy farmers have used the tool, with processes in place to increase this number over the next 12 months – noting substantial support and investment is needed to enable this, including that of government.

More information is needed in relation to the expectations of increasing rigour and over what time period.

- *Industry based metrics:* the consultation paper proposes that by end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well established and understood metrics available.

The dairy industry seeks clarity on the development of such metrics, including the relationship to metrics as outlined in the Sustainability Accounting Standards Board (SASB). What does

'have regard' mean? What defines an industry-based metric? How do these compare to well-established sector-based targets (e.g., such as those within the dairy industry's sustainability framework) or company-based targets?

Recommendations:

- IV. Further modelling and guidance are provided to industry to enable the development of appropriate scenario analysis to underpin climate disclosures, providing consistent and comparable information to investors – with industry associations able to play a lead role. The dairy industry stands ready to work with government to determine such scenarios for their sector.
- V. Capability and capacity building and guidance on scope 3 emissions is needed to facilitate consistent reporting methodologies, as well as direct government support to encourage farmers to understand their baseline GHG Emissions intensity, and measures to reduce it.
- VI. Greater clarity is provided on the development and applicability of industry-based metrics, having regard for well-established sector specific or company-based metrics, engaging the Australian dairy industry in this process.

3. Reporting Framework and Assurance

▪ Assurance capability and methodology

- The dairy industry agrees that external assurance of climate-related financial information is an important feature of the set of proposed CRFD requirements.

Any assurance should not be duplicative of other audit and assurance regimes for the industry.

However, if reporting entities are to include information in their overall Financial Disclosures, consideration should then be given to the auditors that assure the financial information being able to provide assurances on the Climate information – any assurance should be **confined to the methodology used to capture the data, rather than the actual data sets**. Auditing data, as opposed to methodology, would require a new level of audit skills and incur substantial additional audit costs for very little additional credibility/value.

Appropriate and technically qualified team members will need to be part of the audit team (e.g., physical science, agriculture).

It will also take time for baseline data and detailed data sets to be established – especially for scope 3 emissions. As there is already a legal requirement for reporting entities to report on scope 1 and 2 emissions under NGERs, any more stringent auditing/ assurance at this stage would seem to be unnecessary and duplicate work with questionable value.

As capability develops, the CRFD standards could be reviewed, and any additional assurance needs addressed as required.

Recommendations:

- VII. Phasing of assurance is adopted to coincide with capacity (e.g., relative to the maturity of scope 3 emissions in dairy farming and support to improve data collection).
- VIII. Assurance is confined to the methodology used to capture the data, rather than the actual data sets.

4. Liability and Enforcement

▪ Revised liabilities.

- The consultation paper proposes that “CRFD requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct

provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three-years”.

The dairy industry recommends that this time period be extended given previous comments regarding scope 3 emissions and the need for more support to build capacity amongst dairy farmers and processors and to assess levels of data integrity over time.

It is also critical that the word ‘deliberate’ is included in this legislation, to avoid Board members being fined for simple mistakes or malpractice and misconduct by staff. If not, this scenario would reduce incentive for people to nominate for a Board position. This is why many submissions would suggest a good faith provision be included, although not the preferred option of Treasury.

By inserting ‘deliberate’ the concerns of stakeholders and Treasury would be addressed.

It would read: “CRFD requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to **deliberate** regulator-only actions for a fixed period of three-years”.

Recommendations:

- IX. Extend the period beyond three years, that the application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions.**
- X. The word ‘deliberate’ be inserted into the legislation.**

Industry examples: associated climate-related financial disclosure costs

Treasury sought inclusion of information on the cost’s associated with the proposed CRFD requirements, that will inform a Policy Impact Analysis developed as part of this reform, in accordance with the Australian government guidelines to Regulatory Impact Analysis.

We provide the following examples and indicative costs, and can facilitate providing further information from dairy businesses. We ask that we are actively consulted on the Policy Impact Analysis ahead of that process:

Company A:

- Currently reports annually on Scope 1 & Scope 2 emissions to the Clean Energy Regulator.
- This work is typically undertaken by an energy consultant, followed by a third-party assurance audit of the consultant’s work at approximately \$80,000-\$100,000 per year in consultancy fees.
- This is in addition to intense internal resources to support the consultants collating the data.
- Scope 3 emissions: gap analysis underway to understand what information is available from service providers (e.g., air, freight, truck), noting considerable barriers as some companies are not reporting, or not willing to disclose such information.
- Estimated to be approximately 3-5 years from full disclosure of scope 3 emissions.
- Guidance on defining what will be in/out of scope for scope 3 emissions and industry targets is needed.

Company B:

- First estimate of scope 3 emissions: \$200,000.
- Estimate of processor support for carbon calculation on farm \$20,000 **per farm**.

Conclusion

The ADIC asks that Treasury continues to consult with the dairy industry in the development of any new requirements for CRFD reporting in Australia, due to the considerable implications and costs this could have to the sector.

We would appreciate the opportunity to discuss our submission in more detail, and support with additional data provisions, as required.

Yours sincerely



Chair

Australian Dairy Industry Council



Deputy Chair

Australian Dairy Industry Council