Australian Dairy Industry Council and Dairy Australia Submission to the Sustainable Finance Strategy Consultation Paper

The Australian Dairy Industry Council (ADIC) and Dairy Australia appreciate the opportunity to provide comment on Treasury's Consultation Paper on Climate Related Financial Disclosure.

This submission reiterates the ADIC positions previously outlined in submissions to Treasury's consultation on Climate Related Financial Disclosure and to the ACCC's Draft Guidance for Business on Environmental and Sustainability Claims (Draft Guidance) [Greenwashing consultation]. It also aligns with the views of the National Farmers Federation. We have provided responses to key questions only.

The Australian Dairy Industry

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 advocacy body representing dairy farmers across the six dairying states.

The Australian Dairy Products Federation (ADPF) is the national peak policy and advocacy body representing post farm-gate members of the Australian dairy supply chain, including processors, traders and marketers of Australian dairy products. ADPF members process more than 90% of Australian milk volumes and work across rural and regional Australia, to transform raw milk into safe, nutritious and premium dairy products for domestic and global markets .

Dairy Australia 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.

Australian Dairy

The primary focus of the Australian dairy industry is to produce nutritious, affordable food for Australians and export markets. Dairy is the third largest Australian rural industry and a key sector of the agricultural economy, with a farmgate value of $6.1 billion and a direct workforce of almost 35,000 across dairy farms and processing. Dairy companies generate approximately A$15.7 billion in sales. In 2023, 30% of milk production was exported, worth around $3.7 billion.

Dairy Sustainability and Existing Reporting

Sustainability is a key focus for the Australian dairy sector – with dairy farmers implementing sustainable systems on farm in their role as land stewards and to meet the challenge of climate change adaptation, right through to dairy processors seeking to reduce waste, packaging, energy and climate emissions. The Australian Dairy industry is focused on continuous improvement in both dairy farm and processor practice. Launched in 2012, the Australian Dairy Sustainability Framework (ADSF) has publicly reported on the industry's sustainability improvements under four sustainability commitments, each with goals and measurable indicators. 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 latest Dairy Manufacturers Environmental Scorecard (2020-21) 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 emissions.

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 dairy processors currently focuses on scope 1 and 2 emissions,. Scope 3 emissions for 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 industry, enabled by tools such as the latest version of Dairy Australia's Australian Dairy Carbon Calculator. We would be happy to provide indicative costs for undertaking this reporting, as required.

Consultation Paper: General Response

The ADIC previously provided a submission to Treasury's consultation on Climate Related Financial Disclosure and to the ACCC's Draft Guidance for Business on Environmental and Sustainability Claims (Draft Guidance) [Greenwashing consultation].

Climate Disclosure Obligations and Scope 3 Data Issues

The ADIC and DA are concerned about the emergence and impact of climate and nature related financial disclosure reporting requirements, especially in the context of Scope 3 obligations.

The previous ADIC submission on Climate Related Financial Disclosure noted the that baselining of carbon emissions on dairy farms is not yet mature and so extensive reporting of scope 3 emissions by processors is currently not possible.

The release of the latest version of the Australian Dairy Carbon Calculator (v5), along with increased industry focus on 'knowing your number' on dairy farms will improve the reporting of scope 3 emissions. However, this will require time, skill, and resources before a full view of the sector can be gained, and must to be considered as part of the timeframes proposed.

This issue is complicated by farm businesses which have mixed systems, such as dairy plus cropping, as each agricultural sector has different advice and carbon calculators. This is an issue that the agriculture sector is currently working through.

Government support is required to expand this capacity and capability amongst both dairy farmers and processors, to enable better understanding of baseline GHG emissions and to undertake measures to reduce it.

Additionally, data reporting is a sensitive issue with confidentiality and commerciality considerations that must be carefully considered.

Greenwashing

The ADIC and DA support moves to avoid 'Greenwashing' of environmental claims on products. On the ACCC's Draft Guidance for Business on Environmental and Sustainability Claims, the ADIC submission stated that:

> "*The ADIC supports the ACCC's Draft Guidance, including the 'Eight principles for trustworthy environmental and sustainability claims'. These align with the ADSF, which aims to provide the level of credibility and integrity needed to meet our customer, community and investor expectations on dairy and sustainability."*

The Australian dairy sector is working hard towards improved transparency and does not want to see any further regulation of this area.

Any Sustainable Finance framework measures regarding greenwashing must have regard to the findings and guidelines produced through this recent ACCC review – including the eight principles for trustworthy environmental claims (12 December, 2023) – and must not impose further burdensome requirements on measuring and reporting.

Consultation Paper: Response to Pillars and Questions

Pillar 1: Establish a framework for sustainability-related financial disclosure

Q: What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?

As mentioned above, a commitment to building on-farm measurement and reporting capabilities is required for the dairy sector to fully report on carbon emissions.

Proposed mandatory reporting guidelines require disclosure not just on scope 1,2 and 3 emissions but also climate risks and opportunities, governance and strategy by companies.

The dairy industry can help liable entities through the development of industry-wide tools like the carbon calculator, enabling centralised data systems. However, there is also a need to examine climate risks and their implications across different dairy regions and develop tools to help liable entities apply scenario planning. Many of these tools are pre-competitive and can involve industry and government partnerships.

The dairy industry will continue to provide support to farmers, such as through in-house extension services, however, will need to leverage additional resources in order to fully cover all dairy farms across Australia. Recent announcements such as the Government's funding of 200 agricultural extension officers across 20 regional centres to support farmers to achieve Carbon Neutral certification, as well as to implement new technologies and practices that help reduce emissions, will go some way to this. The latest government announcement of a Cooperative Research Centre (CRC) for net-zero emission we assume will also help. However more investment is likely required to be able to meet the timelines for data reporting.

Q: How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?

- The Taskforce on Nature-related Financial Disclosure (TNFD) was launched in September this year. While the TNFD recommendations may be used voluntarily by companies in sustainability reports, the global standard setting bodies are yet to reflect this in a standard which may be made mandatory.
- Dairy and other agriculture sectors are inherently dependent on natural systems and should be closely involved with the development and application of any nature-related financial disclosure standards or regulations in Australia. The Regional Development Corporations, including Dairy Australia, are a good vehicle to test elements of any proposed frameworks – working closely with their industry associations – to help direct capacity building to entities likely to be liable to such regulation.
- Sector-specific indicators and metrics need to be developed to make such disclosures meaningful but also consistent and comparable for audiences. Industry and topic area experts need to be directly involved in the development of domestic expressions of global standards. This should not be left to finance and accounting professionals alone.

Q: What should be the key considerations for the design of a sustainable investment product labelling regime? How can an Australian model build off existing domestic approaches and reflect key developments in other markets?

The Food and Agriculture Organisation[1] recognises that achieving a healthy and sustainable dietary pattern relies on a balance between nutrition and environment, but also social, cultural, and economic aspects. Too often sustainability considerations are distilled down to greenhouse gas emissions alone without a full appreciation of the entire impact of food or product production from the farm, factory to the consumer and beyond.

Therefore, when considering sustainable investment product labelling, a multifaceted approach must be included to encompass all aspects of sustainability. The dairy industry recommends the following considerations and contextual elements relevant to environmental labelling of food. We also point out that a low carbon food product is not the same as a low carbon diet and is not the same as a sustainable diet or dietary pattern. Sustainable investment product labelling must:

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[1] Sustainable healthy diets (fao.org)

- Be truthful, accurate, impartial and not misleading
- Provide meaningful information about the environmental impact of the product,
- Be based on the best available evidenced based, internationally recognised methodology using fit for purpose and replicable data
- The methodology should include life cycle assessment that considers all stages of production/manufacturing from cradle to shelf
- Be regularly reviews and monitored to ensure methodologies and data stary current and reflect changing scientific evidence
- Allow for improvement, innovation, and progress overtime

These points broadly echo the ACCC's final guidance for businesses when making environmental claims. ADIC also provided a submission to this ACCC review (available on request).

Pillar 2: Develop a sustainable finance taxonomy

The Treasury consultation paper emphasises that the taxonomy will need to be "science-based". For this to occur, it is critically important that non-finance sector experts, such as those from the agriculture and ecology sectors, are involved in the development of the taxonomy, particularly when it comes to agriculture and dairy in particular. The ADIC and DA would be available to provide ongoing participation in such a process.

We understand that membership is being recruited by the Australian Sustainable Finance Institute for a Taxonomy Group on Agriculture, The dairy industry asks that we have significant representation on this group.

Conclusion

ADIC and DA ask that Treasury continue to consult with the dairy industry in the development of the new framework for reducing barriers to investment into sustainable activities, noting the considerable implications and costs this could have to the sector.

We would be happy to discuss our submission further and support with data provisions, as required. We look forward to working with you on next steps.

Yours sincerely,

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