National Farmers Federation

Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-Related Financial Information

March 2024

National Farmers Federation

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About the NFF

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.

Overview

The NFF welcomes the opportunity to provide a formal submission to the Australian Accounting Standards Board (AASB) to outline industry perspectives, policy concerns, and recommendations to further shape the design of Exposure Draft ED SR1. NFF's *Climate-Related Financial Disclosure Policy* is available as Attachment 1 and should be reviewed in conjunction with this submission. NFF have also provided a response to Treasury Exposure Draft Legislation published for public consultation in January 2024, this is available as Attachment 2, and similarly, should also be reviewed.

NFF are opposed to the introduction of mandatory Scope 3 reporting. The NFF membership retains serious concerns over the necessity and scope of the [Draft] ASRS Standards developed by AASB. The NFF view is Government should not implement this policy for Scope 3 reporting for agriculture. If unavoidable, a formal Scope 3 emissions reporting requirement date beginning 2035 at the earliest should be implemented. Nevertheless, in recognition of the impending nature of this policy reform, NFF have provided several recommendations to ED SR1 to increase the relevance and adaptability of the proposed reform to the sector.

Developmental Process

ED SR1 is comprised of three draft Australian Sustainability Reporting Standards (ASRS Standards) as distinguished:

1. **[Draft] ASRS 1 *General Requirements for Disclosure of Climate-Related Financial Information*.**
2. **[Draft] ASRS 2 *Climate-Related Financial Disclosures*.**
3. **[Draft] ASRS 101 *References in Australian Sustainability Reporting Standards*.**

The NFF holds significant concern over the process by which [Draft] ASRS 1 and [Draft] ASRS 2 have been developed. Despite being constrained (in scope) by the International Reporting Financial Standards (IRFS) and 336A(1) of Treasury Exposure Draft Legislation, unlike the latter, ED SR1 has not been informed by robust stakeholder processes. Stakeholder feedback provided to Treasury between 2022 and 2024 regarding the design and implementation of proposed Climate-Related Financial Disclosure (CRFD) requirements (i.e. public consultations, industry roundtables, and public Q&A sessions) have not been considered by AASB in the design of ED SR1. Rather, as stated in Page 5 of ED SR1, the design of these proposed ASRS Standards appear to have been limited to feedback attributed to Treasury's June 2023 second consultation in addition to informal feedback provided by Governmental staff in Treasury, DCCEEW, and the CSIRO. This view is supported by observable differences in NGER thresholds differentiating Groups 1, 2, and 3 between ED SR1 and Treasury Exposure Draft Legislation, the former of which reflects a carbon-copy of that presented by Treasury in June 2023. Furthermore, there also exists placeholder text within ED SR1 awaiting future insertion upon release of Australian Government policy. It is concerning, therefore, to see that the AASB has not communicated with Treasury on this critical reform process and appears to be consulting stakeholders on outdated information with no undertaking for further consultation.

'*Depending on the nature and extent of the feedback, the AASB may publish another Exposure Draft or a Fatal-Flaw Review Draft to enable further consultation with stakeholders*'.

While the NFF understands that the decision to release ED SR1 ahead of official Government policy was a decision made by the AASB Board, this consultation, nevertheless, is incomplete, unnecessarily rushed, and not fit for purpose. AASB must commit to the publication of a Fatal-Flaw Review Draft alongside an additional Exposure Draft for further public consultation consistent with Government policy. **The provision of a singular consultation document (ED SR1) framed upon a limited and outdated subset of stakeholder input does not resemble best-practice engagement and does not provide industry with confidence that our views are either respected or will be meaningfully considered.** NFF have sought direct engagement with the AASB and have been rebuffed on the basis of '*multiple outreach events*'. More consultation is required.

In recognition that the introduction of ASRS Standards for the disclosure of Climate-Related Financial Information (CRFI) is a significant policy reform, and one that directly impacts (through regulatory measures) industry groups, consultation processes to-date and those anticipated thereafter does not reflect the gravity of the subject. The development of these ASRS Standards must be underpinned by existing, robust stakeholder feedback conducted (and obtained) between 2022-24, and remain industry driven, with feedback (that does not include Departmental advice on alignment with existing legislative/regulatory requirements of other legislators) provided by Government to play an advisory role only. It is inappropriate for specific Government Departments and Organisations to hold material influence over core reform elements they themselves are not captured by. This is a process that must be independently driven by the AASB and confined by robust stakeholder feedback. This is not a process that is limited to accounting outcomes, this will have a material impact on a high number of businesses.

Significance of Policy Reform

Upon analysis of the balance of concerns, the NFF holds the view that the principle of establishing ASRS Standards is in the best interests of the Australian economy, and that the proposals will result in CRFI that is useful to users (i.e. investors). The execution of the proposed policy reform does require significant improvement, our key concerns are articulated in the proceeding sections of this submission.

Currently in Australia, there exist a multitude of competing frameworks each armed with their own set of reporting requirements for the disclosure of CRFI (i.e. different reporting periods, formats, and styles). These include but are not limited to the IFRS, SASB Standards, GRI Standards, and the SDGs. The establishment of a national standard will circumnavigate these competing complexities as it will ensure investors are provided with high-quality, verifiable (via assurance), transparent, and more comparable information about an entity's exposure to climate-related financial risks, opportunities, plans, and strategies. Mandatory disclosure of such information will ensure an efficient allocation of capital can be achieved as investors will be better positioned to make an informed investment decision.

It is unclear, however, whether this proposed policy reform will increase the attractiveness of the Australian economy as a marketplace for investment. While greater information

provision may influence hesitant prospective investors to invest in entities with climate-related opportunities, the mandatory disclosure of an entity's climate-related risks as a component of its Resilience Assessment in line with warming climate scenario analyses (a mandated 1.5°C scenario **and another discretionary scenario of an entity's choice)** may discourage prospective investment. This is because the scenario ambition selected may conflate the anticipated risks that an entity may experience, impacting its perceived attractiveness to investors.

High-Level Policy Concerns

The NFF holds the following high-level policy concerns; these are explored in greater detail in the proceeding sections of this submission.

1. **There is no Scope 3 reporting exemption for agricultural entities at any threshold.**

2. **A formal Scope 3 reporting date no earlier than 2035 must be considered and implemented for all reporting Groups (1, 2, and 3).** This is a novel, and extremely complex issue that is likely to require supply chains develop new infrastructure to satisfy demands for Scope 3 reporting, particularly amongst agricultural supply chains which are highly fragmented, localised, and susceptible to pressure exerted by much larger entities captured under this reporting regime.

3. **Appropriate protections must be built within ASRS Standards and subsequent Exposure Draft Legislation to protect supply chain elements from potential repercussion to those who choose to not provide reporting entities with data to satisfy their mandatory Scope 3 disclosure obligations.**

4. **Businesses that are not captured under the proposed reporting regime (i.e. do not exceed Group 1, 2, or 3 thresholds) remain not required to undertake measurement and/or provide estimations of their Greenhouse Gas (GHG) emissions data to reporting entities.**

5. **The proposed expansion of the National Greenhouse and Energy Reporting (NGER) Scheme to include emissions from agriculture and land** as recommended by the Climate Change Authority (CCA) **must not be entertained or implemented.**

6. **Unconscionable conduct by reporting entities against suppliers regarding the sharing of data to quantify Scope 3 GHG emissions.**

7. **Ability of Minister to adjust, by legislative instrument, Group 3 threshold requirements** (as outlined in Treasury Exposure Draft Legislation) and the impact of such action on the number of entities seeking data from the supply chain.

Specific Matters for Comment

Presentation of Core Content of IFRS S1 in [Draft] ASRS Standards

The NFF does not object the proposed development of two separate [Draft] ASRS Standards by the AASB. Any effort to reduce, or mitigate entirely, duplication between

ASRS Standards will provide industry with greater clarity and understanding of the scope and content of this impending regulatory reform. We therefore recommend that the duplication of language across both ASRS 1 and ASRS 2 is removed where applicable.

The NFF understands that the AASB has exposed to a limited subset of stakeholders through its *Agenda Consultation 2022-2026* (conducted on 12 February 2022) a potential introduction of four new ASRS Standards (nature and biodiversity, human capital, human rights, and connectivity) in the medium-term future. The proposed separation structure of ASRS 2 (a topic specific standard) from ASRS 1 will, therefore, mitigate the requirement to re-expose existing ASRS Standards should further standards be developed for consultation. This will enable a seamless consultation and implementation of new ASRS Standards to take shape should it be mandated by Treasury via legislative instrument. On this point, the NFF is not convinced that the national economy is prepared for additional ASRS Standards beyond climate (ASRS 2) for a considerable period.

Entities With No Material Climate-Related Risks and Opportunities

The NFF supports proposed requirements in [Draft] ASRS 1 Aus6.2 as the policy intent is to reduce the regulatory burden for insulated entities to no significant disadvantage or negative effect for investors. We express concern however that entities that do not face material climate-related risks or opportunities within a given financial reporting period **may still be required to produce a separate sustainability report that is covered by the Director's declaration (as indicated in Treasury Exposure Draft Legislation).** This would impose an unnecessary regulatory weight on reporting entities and will expose decision-makers involved in materiality assessment to potential challenge.

The NFF cannot provide comment on the proposed requirement outlined in [Draft] ASRS 2 Aus4.2 as requested by AASB as this remains undefined, to be determined 'subject to Australian Government Policy'. Application must align with Government policy outlined in Treasury Exposure Draft Legislation (i.e. Group 3 entities that do not face material climate-related risks or opportunities are exempt from mandatory disclosure requirements, including Scope 3). This would ensure the number of reporting entities across all Groups that approach the supply chain for data are minimised, alleviating identified risks in Policy Concerns 6 and 7.

Definitions for climate-related physical risks (acute and chronic) and transition risks while provided in ASRS 2, are subjective, lack necessary clarity, and can be interpreted in a multitude of competing ways. The weight of evidence required to identify whether a risk is likely to be reasonably material will have a direct impact on the number of reporting entities approaching the supply chain seeking data to satisfy mandatory Scope 3 disclosure obligations. It can be argued that any entity with a large agricultural supply chain (particularly if geographically concentrated) has embedded climate-related physical risks.

This is because agricultural production is inextricably linked to and influenced by environmental factors (i.e. 'event-driven' as defined). If assessed accordingly, this would mean that the maximum number of entities will be approaching the supply chain, and by extension primary producers, for data. This is a significant risk because as suppliers turn inward to the supply chain to mitigate reporting costs (Table 1), primary producers may feel compelled, or even threatened, to estimate, measure, and disclose sensitive emissions data at their own individual cost (despite not being legislatively required to do so) to

satisfy the demands of their much larger business counterparts to avoid unnecessary strain on critical business relations. **This risk is explored in greater detail in the *Additional NFF Comments* section of this submission.**

Modifications to the Baseline of IFRS S1 for [Draft] ASRS 1

Location of an Entity's Climate-Related Financial Disclosures

The NFF supports the proposed requirement that an entity is not required to provide a detailed index table to be included in the General-Purpose Financial Report GPFR), an onerous activity, but rather is allowed to express judgement in the location whereby such information is located.

Interim Reporting

The NFF supports the omission of IFRS S2 paragraphs 69 and B48 within [Draft] ASRS 1 as this will eliminate confusion regarding interim reporting requirements. Similar measures to increase the clarity of ASRS Standards is a positive action, and a principle the NFF supports.

Modifications to the Baseline of IFRS S2 for [Draft] ASRS 2

Scope of [Draft] ASRS 2

The NFF supports the proposal in [Draft] ASRS 2 Aus3.1 to clarify the scope of the [Draft] Standard. This will ensure a clear distinction between both proposed ASRS Standards.

Climate Resilience

Aus22.1 [Draft] ASRS 2: '*Further to paragraph 22, an entity required by the Corporations Act 2001 to prepare climate-related financial disclosures shall disclose its climate resilience assessments against at least two relevant possible future states, one of which must be consistent with the most ambitious global temperature goal set out in the Climate Change Act 2022*'.

The NFF is concerned that the addition of Aus22.1 to [Draft] ASRS 2 is an unnecessary regulatory burden of substantial cost, particularly for Group 3 reporting entities (who are less positioned to have the necessary infrastructure in-place to accommodate for and conduct such complex modelling).

The mandatory disclosure of an entity's climate-related risks as a component of its Resilience Assessment in line with warming climate scenario analyses (a mandated 1.5°C scenario **and another discretionary scenario)** may discourage prospective investment. To combat this problem, the NFF would prefer the AASB mandate a lower- and upper-warming scenario and provide reporting entities a decision to voluntarily align their Resilience Assessment against a third scenario of their choosing. This will balance reporting ambition and the regulatory cost of undertaking a scenario analysis (Table 1).

GHG Emissions (Paragraphs Aus31.1 and B19-AusB63.1 and Australian Application Guidance)

Converting GHGs into a CO2 Equivalent Value

If reporting entities are required to quantify their GHG emissions using Global Warming Potential (GWP) values listed in AR6 as described in BC70-BC72, this will increase the regulatory burden for entities captured and required to report under the NGER Act (which is aligned with the Paris Agreement and AR5). Therefore, if an AR6 requirement is mandated for all reporting entities including those captured under NGER, the process of GHG quantification and reporting will essentially be duplicated, resulting in a substantial increase in initial transition and ongoing costs to meet regulatory compliance. These costs have been estimated by Treasury in its *Policy Impact Analysis Climate-Related Financial Disclosures* document and highlighted in Table 1.

Table 1: Total cost per entity under recommended Option 1B, Treasury to achieve regulatory compliance under the proposed reporting regime (i.e., Scopes 1, 2, and 3 reporting and other associated costs).

Activity	Transitional Cost ($)	Ongoing Cost ($)
Familiarisation and education costs	116,960	0
Legal review	10,472	7,854
System changes	245,000	0
Data collection	245,000	242,550
Scenario analysis	245,000	161,700
Scope 3 modelling	245,000	161,700
Preparation of climate report	149,600	48,960
Assurance (audit compliance)	49,815	49,815
TOTAL	**1,306,847**	**681,154**

The NFF supports measures to mitigate and eliminate this regulatory burden by creating a standardised approach for quantifying GHG emissions irrespective of whether an entity is NGER captured or not. The NFF, therefore, agrees in principle with the addition of AusB22.1 and AusB22.2 to [Draft] ASRS 2 which requires an entity to convert GHGs using the GWP values in the IPCC assessment report identified in [Draft] ASRS 101 which refers to AR5 and not AR6. A better outcome would be to standardise reporting alongside the established science of AR6. This is because AR6 more accurately reports the GWP of GHGs for key agricultural GHGs like CH4 and N20, ensuring agriculture is more accurately represented in Scope 3 disclosures (as opposed to AR5 which overestimates the GWP of several GHGs). NFF recognises, however, that AR6 has not been adopted by AASB in ED SR1 as it would create unfair regulatory burden for NGER reporting entities as opposed to other captured entities that are not NGER captured (i.e., who would then be required to report in AR5 and AR6).

Subsequently, to ensure legislative consistency and a more accurate reporting of emissions, the NFF recommends further amendment to the *National Greenhouse and Energy Reporting Regulations 2008*. Previous amendments have adopted a band-aid style approach where the carbon dioxide equivalence (GWP100 value) of GHGs listed in the NGER Act are updated via definitional amendment in alignment with published IPCC Assessment

Report findings. This process is unnecessarily complex and should be eliminated through the following consequential amendment:

2.02 Definition of *carbon dioxide equivalence* – values specified for determining carbon dioxide equivalence.

- **Repeal:** '*For the definition of carbon dioxide equivalence in section 7 of the Act, the value specified in relation to a kind of greenhouse gas is the value specified as the Global Warming Potential for that greenhouse gas mentioned in an item of the following table*'.

Replace to the Following Effect: '*Entities are required to convert GHGs into a CO2 equivalent value using GWP values based on the latest IPCC assessment available at the reporting date*'.

Table 2: Comparison of IPCC GHG GWP across AR4, AR5, and AR6 Assessment Reports for key agricultural GHGs[1]. Through amendment to the *National Greenhouse and Energy Reporting Regulations 2008*, the NGER Act has adopted AR5 GWP values from 2020-21 (as highlighted in yellow).

Greenhouse Gas	100-Year Time Period				20-Year Time Period			
	AR4 2007	AR5 2014		AR6 2021	AR4 2007	AR5 2014		AR6 2021
	Feedback Not Included		*Feedback Included*		*Feedback Not Included*		*Feedback Included*	
CO_2	1	1	1	1	1	1	1	1
CH_4 fossil origin	25	28	34	29.8	72	84	86	82.5
CH_4 non-fossil origin				27.2				80.8
N_2O	298	265	298	273	289	264	268	273

In addition to estimating using GWP100, entities should be able to provide supplementary reporting using GWP* or another suitable metric if they choose to do so, especially given AR5 overestimates the GWP of several GHGs, is not in line with more recent established science, and alternate reporting metrics such as GWP* for example are understood to represent agriculture's impact more accurately, particularly for CH4 from livestock.

NFF's Climate Change Policy is available as Attachment 3.

Providing Relief Relating to Scope 3 Greenhouse Gas Emissions

The NFF agrees with the proposal to permit an entity to disclose in the current reporting period its Scope 3 GHG emissions using data from the preceding reporting period, if reasonable and supportable data related to the current reporting period is unavailable. This will provide regulatory relief for Scope 3 reporting.

[1] Department of Climate Change, Energy, the Environment and Water: Quarterly Update of Australia's National Greenhouse Gas Inventory: June 2023

Australian Carbon Credit Units

The NFF supports the proposal to modify the definition of carbon credit in [Draft] ASRS 2 to include carbon credits issued under the ACCU Scheme. This will ensure non-Kyoto ACCUs (that are not uniquely serialised) are appropriately recognised within the context of the standard.

Quantification of Costs and Benefits

The quantification of reporting costs has been estimated by Treasury in its *Policy Impact Analysis Climate-Related Financial Disclosures* document. Under recommended Option 1B (which aligns significantly with ED SR1), the following costs have been identified and quantified:

- Initial transition costs to achieve regulatory compliance for each captured entity (i.e. Group 1, 2, and 3) will exceed $1 million per year per entity, and annual compliance costs, although decreasing through time, will exceed $500,000 per entity. This is a significant regulatory burden.

- Average estimated compliance burden under Option 1B for Group 1, 2, and 3 decrease in total cost per captured entity ($811,838, $785,695, and $33,956 respectively).

Additional NFF Comments

Interaction Between Scope 3 Reporting and the Supply Chain: Material Risks to Agriculture

Primary and Secondary Data

Regarding the quantification of Scope 3 GHG emissions, it is the position of the NFF that entities not captured under the proposed reporting regime remain not required to undertake measurement and/or provide estimations of their GHG emissions data to reporting entities. Non-captured entities must not be compelled to disclose sensitive information about their business at their individual expense if they chose to withhold the sharing of such information.

As outlined in [Draft] ASRS 2 B46, an entity's measurement of its Scope 3 GHG emissions will be based on '*data obtained directly from specific activities within the entity's value chain (primary data), data not obtained directly from activities within the entity's value chain (secondary data), or a combination of both*', with primary data prioritised as the first preference of choice. Examples and collection sources used to underpin primary and secondary data for Scope 3 GHG emissions are outlined below in Table 3.

In alignment with public commitments to design mandatory CRFD reporting requirements '*as far as possible with IFRS S2 issued by the ISSB*', we seek to ensure this important choice distinction is maintained and that language outlined across B38 to B42 is not altered, or if it is, that AASB commit to undertaking further consultation. This is a significant subject that will affect all supply chain elements, particularly agriculture, a major food and fibre producer.

Table 3: *Differentiation between primary data and secondary data examples available to an entity to measure and/or estimate its Scope 3 GHG emissions.*

Primary Data	Secondary Data
As Described: Data provided by suppliers or other entities in the value chain related to specific activities in an entity's value chain.	**As Described:** Data that is not obtained directly from specific activities within an entity's value chain, used to approximate the activity or emission factors.
Examples: • Meter readings. • Utility bills. • Supplier-specific emission factors for purchased goods or services. • Other methods that represent specific activities in the entity's value chain.	**Examples:** • Industry-average data (e.g. from published databases, Government statistics, literature studies, and industry associations).
Sources of Collection: • Internally (an entity's own records). • Externally from suppliers and other value chain partners.	**Sources of Collection:** • Third-party data providers.

Although entities can use either direct measurement and/or estimation methodologies to quantify their Scope 3 GHG emissions to satisfy CRFD reporting requirements and maintain regulatory compliance, there exists a serious risk that that captured entities (i.e., suppliers) will offload the regulatory cost of data collection and Scope 3 modelling (Table 1) onto the supply chain. As suppliers turn inward to the supply chain seeking emissions data to mitigate these costs, primary producers may feel compelled, or even threatened, to estimate, measure, and disclose sensitive emissions data at their own individual cost (despite not being legislatively required to do so) to satisfy the demands of their much larger business counterparts to avoid unnecessary strain on critical business relations. This is a significant material risk for the sector, especially as the meat and dairy industry alongside other food industries are ranked the highest fragmented industries in Australia[2] (based on limited available data), rendering available the option for suppliers to terminate existing contracts and go elsewhere if their data requests are not satisfied, resulting in a loss of critical farm revenue streams.

Unconsciousable Business Conduct

While no legal definition is provided, upon analysis of previous legal cases, unconscionable conduct is generally comprised of the following elements:

1. There must be a special disadvantage between the parties (i.e. a considerable difference in bargaining strength).
2. There must be an unconscientious taking of that advantage.

[2] https://www.rba.gov.au/publications/rdp/2014/2014-07/str-aus-dom.html

3. The defendant is unable to establish that the transaction was fair, just, and reasonable.
4. A pattern of long-term behaviour even if the impacted party did not suffer explicit loss or damage.

The NFF notes that there have been previous instances where major supermarket chains have been declared to have engaged in unconscionable conduct in their dealings with certain suppliers. This is not a novel issue; it is a real material risk to the sector.

While the NFF understands that the Australian Competition and Consumer Commission (ACCC) is responsible for regulating and prosecuting unconscionable business conduct practices violations against *Australian Consumer Law*, previous investigations have taken significant time to resolve, and it remains unclear if the ACCC has the current, or future, internal resource capabilities required to police such activity across all aspects of the national economy. AASB has acknowledged this risk, it must seek proactive engagement with the ACCC, ASIC (Australian Securities and Investments Commission), Treasury, and Government to develop appropriate safeguards for supply chain elements.

Scope 3 Methodologies and Guidance

B39: '*An entity is required to use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort when the entity selects the measurement approach, inputs, and assumptions it uses in measuring Scope 3 greenhouse gas emissions*'.

It is unclear how the policy intent that Scope 3 disclosures would represent information that is available at the reporting date without undue cost or effort is reflected in-practice. This is apparent as no formal guidance has been provided by Federal Government to assist entities determine what methods are acceptable, or available for estimating Scope 3 emissions. While AASB have developed in place an A*pplication Guidance Hierarchy* (Figure 1), outlining an elimination process for an entity to follow regarding how to quantify its GHG emissions (Figure 1), this is inadequate. In addition to example methodologies outlined in the *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, and other technical guidance published by the GHG Protocol, there are no methodologies that encompass all of agriculture, and those that exist and are somewhat applicable to the sector (i.e. tools to estimate emissions from ammonia, wood, lime, and N20 emissions from nitric acid production) are limited in their ability to produce useful results for the general agricultural supply chain.

Therefore, Government must develop separate guidance on additional methods for Scope 3 estimation for agriculture inclusive of carbon calculators. We understand that AASB has expressed significant interest in the development of guidance material, as demonstrated in Roundtable discussions held in February 2024. By creating a credible, referrable, and detailed document, businesses (captured and not captured under the reporting regime) will have greater certainty on what estimation methods are available to them, and by extension, an approximate quantification of estimation costs involved. This will reduce time and monetary costs attributed to the research and exploration of unknown available secondary data collection methodologies and will ensure entities do not create their own bespoke methodologies in alignment with the policy intent that disclosures are undertaken '*without undue cost or effort*'. A proposed addition to the *Application Guidance Hierarchy*

(figure 1) is provided in red to reflect this necessity. All stakeholder groups (not just accounting interests) must be broadly consulted on the design of such guidance material prior to the finalisation of these [Draft] ASRS Standards. This cannot be a process undertaken in vacuum.

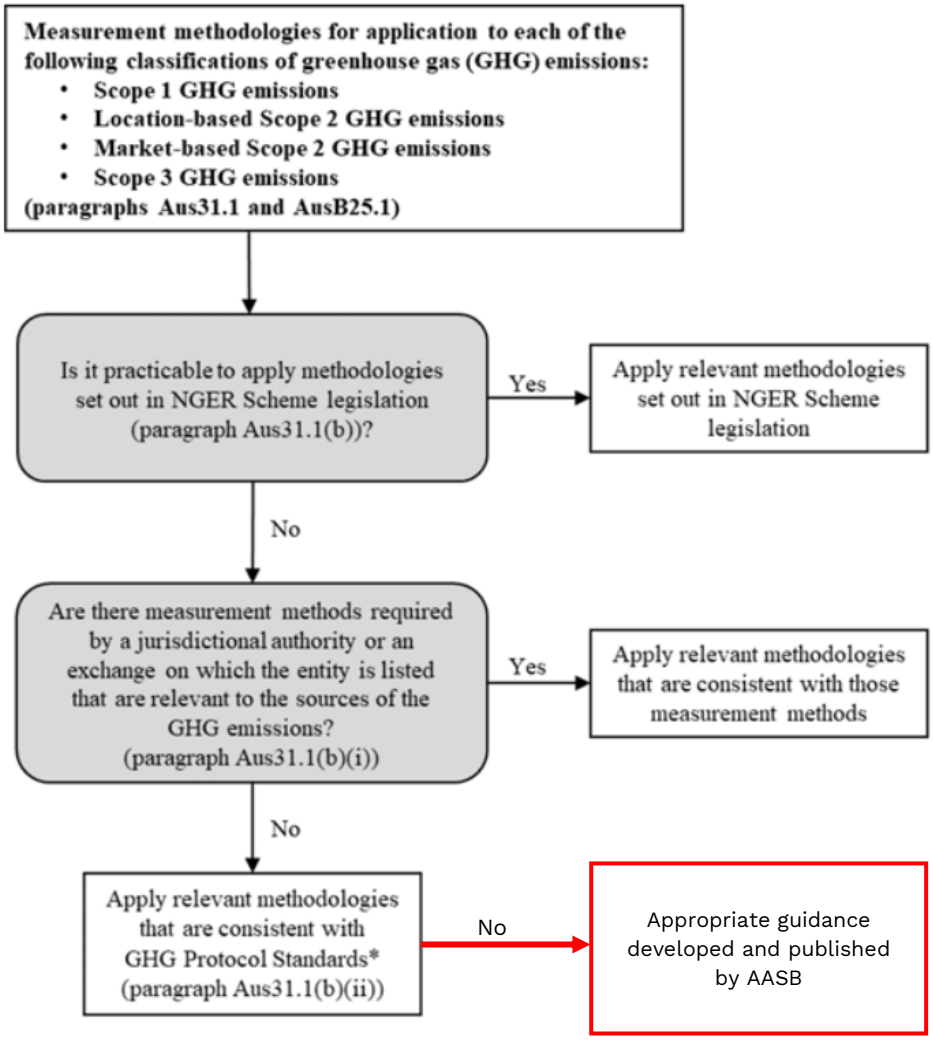

Figure 1: Australian application guidance for GHG measurement methodologies (paragraphs Aus31.1(b) and AusB25.1) and proposed NFF recommendation.

It is critical to note that in terms of reporting, for an extensive period, the agriculture sector has been heavily focused and involved in ensuring that credible carbon calculators are developed for public use. Carbon calculators developed by the sector such as those outlined in Table 4 should be considered by AASB or another appropriate Government body in the design of such guidance material. The NFF understands that Treasury is seeking to ensure carbon calculators can be used to support disclosures.

Table 4: *List and description of carbon calculators developed by the agriculture sector.*

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

Captured NGER Entities

Under the proposed ASRS Standards, entities that are registered corporations (or are required to register) under the NGER Act are categorised as Group 1 or 2 reporting entities dependent on whether they exceed the 50,000 tonne CO2-e combined Scope 1 and Scope 2 GHG emissions 'publication threshold'.

In December 2023, the CCA recommended the following policy action to Federal Government[3]: '*Reporting under the NGER scheme should be extended to agriculture and land emissions in a separate and staged manner*'.

If the scope of the NGER Scheme is expanded to include agriculture and land as recommended by the CCA, NGER reporting agricultural entities will be required to prepare a sustainability report for each financial year irrespective of their revenue, gross assets, or number of employees. **This is a significant concern to the NFF, and we seek to ensure no new additional legislation proposing an expansion of the NGER Scheme to include emissions from the agriculture or land sectors is introduced.**

Conclusion

The NFF thanks the AASB for the opportunity to provide a formal submission to guide the strategic design of Exposure Draft ED SR1. This is a significant policy reform; we look forward to further engagement on the development of these draft ASRS Standards. Please do not hesitate to contact Warwick Ragg, General Manager NRM via e-mail: WRagg@nff.org.au at the first instance to progress this discussion or to seek further clarification.

[3] https://www.climatechangeauthority.gov.au/sites/default/files/documents/2023-12/2023%20NGER%20Review%20-%20for%20publication.pdf

Yours sincerely,

TONY MAHAR
Chief Executive Officer

Attachment 1: NFF 2023 Climate-Related Financial Disclosure Policy
Attachment 2: NFF Treasury Climate-Related Financial Disclosure Exposure Draft Legislation Submission
Attachment 3: NFF 2023 Climate Change Policy

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Climate-Related Financial Disclosure Policy

Policy Position

The National Farmers' Federation (NFF) is concerned about the impact of mandatory climate-related financial disclosure reporting. We remain opposed to a requirement to formalise the reporting of Scope 3 emissions irrespective of proposed tranche timeframes until the farm sector gains clarity on coverage and threshold activation numbers as well as the impacts of shared cost and time commitment compliance requirements. Discussions around what level of verification is expected to underpin Scope 3 reporting and how compliance will be enforced are critical questions, this is a requirement that must be undertaken immediately and with priority.

Concerns also arise regarding the reporting and disclosure of project data and how it will be utilised and shared. NFF holds the view that industry sector reporting must be protected, and that the supply of information to financial institutions be avoided where possible to ensure such institutions do not discriminate against various industry groups.

Background and Issue

The Australian agriculture sector has been actively engaged in addressing climate change both through individual and collective action, having steadily reduced GHG emissions output since 1993 and committed significant investment into the development of anti-methanogenic technologies with promising, measurable results. There also exists discussions around better or alternate pathways to nitrogen management in cropping enterprises, ongoing exploration of the viability of soil carbon sequestration, and a suite of programs that address climate change including but not limited to several sector-based emission reduction targets over various timeframes and with varying ambition.

The agriculture sector's priority has since become to understand its own disposition in relation to individual producers' emissions and sequestration so it can make informed decisions about how individual farmers understand and respond to climate policy with respect to managing their individual business. The Australian agricultural sector has been engaged in extensive, groundbreaking work to understand, report, and demonstrate its sustainability across environmental, social, and governance outcomes through the Australian Agricultural Sustainability Framework (AASF). A key component of this are 17 principles which include greenhouse gases, it is expected that further work on data sources will aid understanding of agriculture's climate disposition. The sector has also been heavily involved and focused in ensuring credible carbon calculators are developed for public usage. Carbon calculators that have come online remain nascent, and there exists a requirement to have these benchmarked to ensure they are providing credible answers.

If carbon calculators are deemed an insufficient and unverifiable tool to support the reporting of Scope 3 emissions, the next level step may involve biophysical measurement at a farm-scale. Small- and medium-scale agricultural entities and businesses will likely be unable to meet any proposed threshold for Scope 3 reporting without undertaking substantial cost, and lack the necessary skill-base, technology access, or economic driver to do so. This is opposed by the farm sector, and it therefore demands extensive industry consultation as well as a detailed assessment of agriculture's ability to meet such a threshold.

What the Industry Needs

Policy

- The government not to implement this policy for Scope 3 for agriculture;
- Government to engage with industry stakeholders via an immediate land-sector specific consultation;
- Clear advice on materiality and best-efforts thresholds from government;
- Develop a common methodology indicator and reporting code of practice to benchmark carbon calculators;
- Ensure that bespoke solutions by individuals and companies are not encouraged and generic calculators are able to be used;
- Government facilitate medium term engagement with accounting software providers to map a pathway to climate related information be incorporated by no earlier than 2030; and
- If unavoidable, a formal Scope 3 emissions reporting requirement date beginning 2035 at the earliest.

October 2023

National Farmers Federation

09 February 2024

Climate Disclosure Unit
Climate and Energy Division
Department of Treasury
Langton Crescent
Parkes ACT 2600

Via email: ClimateReportingConsultation@treasury.gov.au

Dear Director,

RE: Climate-Related Financial Disclosure: Exposure Draft Legislation (*Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure*)

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.

Overview

The NFF welcomes the opportunity to provide comment to inform ongoing processes relating to the design of Exposure Draft Legislation for mandatory Climate-Related Financial Disclosure (CRFD) reporting in Australia.

NFF's *Climate-Related Financial Disclosure Policy* is available at Attachment 1 and should be read in conjunction with this submission.

The proposed legislation will mandate requirements for businesses and financial institutions to disclose climate-related risks and opportunities as a component of their annual reporting through amendment to the *Corporations Act 2001* and *Australian Securities and Investments Commission Act 2001*. Three policy pathways have been presented to Federal Government; Treasury have recommended Option 1B for implementation.

The NFF has carefully reviewed all policy consultation and explanatory materials. In alignment with Treasury request, our submission has examined whether the proposed legislation effectively implements the policy intent as outlined in the *Policy Position Statement*. Key industry concerns regarding the policy setting of Option 1B have also been articulated, alongside other issues that demand further addressment.

The NFF recognises that the Australian Accounting Standards Board (AASB) is concurrently facilitating a public consultation on Exposure Draft Legislation for Sustainability Reporting Standards for the disclosure of Climate-Related Financial Information (CRFI) – (closing 01 March 2024). The NFF will be providing a detailed response to this process. These critical processes must and cannot be determined, influenced, or restricted by political deadlines or timeframes.

Drivers for Mandatory Climate-Related Financial Disclosure in the Australian Context

Currently in Australia, there exist a multitude of competing frameworks each armed with their own set of reporting requirements for the disclosure of CRFI (i.e., different reporting periods, formats, and styles). These include but are not limited to the TCFD, SASB Standards, GRI Standards, and the SDGs. The AASB will be expected to be designed against agreed IFRS requirements and this legislation.

The establishment of a standardised disclosure process will ensure investors are provided with high-quality, transparent, and more comparable information about an entity's exposure to climate-related financial risks, opportunities, plans, and strategies. This will ensure an efficient allocation of capital investment can be achieved as investors will be better positioned to confidently make an informed investment decision.

Supported Policy Measures

Exposure Draft Legislation represents an overall improvement from initial policy settings shared in previous public consultations. The NFF notes the following measures:

- Treasury have recommended the policy option of least regulatory resistance (Option 1B). The NFF expresses caution, however, that the anticipated capture of 1,800 entities is in-fact an under-estimation, considering Registered Management Investment Schemes (MISs), Registerable Superannuation Entities (RSEs), and entities captured under a proposed expansion of NGER Scheme reporting to include emissions from agriculture and LULUCF may fall under the regulatory capture of this regime. The latter of which NFF opposes.

- Scope 3 reporting exemptions for small- and medium-sized entities (i.e., Group 3) as a result of high proposed capture threshold requirements.

- Introduction of modified liability for Scope 3 disclosures.

- Greater flexibility in Scope 3 reporting timeframes (a maximum lag timeframe of 12 months).

- A CRFD reporting exemption for Group 3 entities that do not face material climate-related risks or opportunities during any financial reporting period.

- Average estimated compliance burden under Option 1B for Group 1, 2, and 3 decrease in total cost per captured entity ($811,838, $785,695, and $33,956 respectively). This aligns with the policy intent to reduce the regulatory burden for small- and medium-sized entities, however, it remains difficult if this remains the case for NGER as the number of NGER captured entities under Option 1B has not been provided.

- **336A (1): Sustainability Standards developed by the AASB for the purposes of this Act** (*Treasury Laws Amendment Bill 2024: Climate-Related Financial Disclosure*) **must not be inconsistent with this Act, regulations or a legislative instrument made under this Act.** This is an important measure as it will ensure the development of Sustainability Standards by the AASB is constrained by the IFRS and this national enabling legislation, mitigating the risk of consequential impacts.

Policy Concerns

Although Exposure Draft Legislation does resemble an overall improvement from initial policy settings shared in previous public consultations, the NFF holds the following concerns:

- **There is no Scope 3 reporting exemption for agricultural entities.**

- **Initial transition costs to achieve regulatory compliance for each affected entity will exceed $1 million, and annual compliance costs, although decreasing through time, will exceed $500,000 per entity. This is a significant regulatory burden.**

- **The proposed legislation enables the Minister, by legislative instrument, to establish new thresholds for two of three criteria used to determine regulatory capture under Group 3.** If criterion is lowered, the quantity of Group entities required to produce a sustainability report and disclose Scope 3 emissions will be significantly raised, in turn, increasing the number of reporting entities seeking data and information from the supply chain. This is problematic as primary producers may feel compelled to disclose sensitive commercial information at their own individual cost to satisfy their march larger business counterparts to avoid unnecessary strain on critical business relations. **As such, the NFF seeks to remove**

this provision entirely (292A (4)(a) and (b)) and substitute it with an option for such criterion to be adjusted only upon recommendation from mandatory Government post-implementation review of the legislation (to be conducted as soon as practicable after 1 July 2028).

- **A formal Scope 3 reporting date no earlier than 2035 must be considered and implemented for all reporting Groups.** This is a novel, and extremely complex issue that will require supply chain elements to develop in-place new infrastructure to satisfy demands for Scope 3 reporting.

- **Modified liability arrangements only apply for statements within sustainability reports prepared for FY25, FY26, and FY27.** This means Group 2 entities are provided relief for a one-year period, and no relief is provided for Group 3 entities as their first reporting year commences on or after 1 July 2027.

- **Modified liability arrangements are only applicable to statements relating to Scope 3 emissions or scenario analyses.** This creates the possibility for either private plaintiffs to instigate civil proceedings for any other statements within a sustainability report or the ASIC to bring forward civil penalty proceedings.

- **Group 3 entities that do not face material climate-related risks or opportunities for the financial reporting period must still produce a separate sustainability report that is covered by the Director's declaration.** This materiality provision does not align with the policy intent to reduce the compliance burden for medium-sized entities, and it exposes decision-makers involved in the materiality assessment to challenge. The NFF, therefore, recommends that Group 3 entities are restricted from mandatory disclosure until a post-implementation review of the legislation is conducted, or Group 3 is restricted to entities operating in defined sectors likely to experience a material climate impact to their business.

Interaction Between Scope 3 Reporting and the Supply Chain

It remains unclear who will be responsible for estimating Scope 3 emissions to satisfy CRFD requirements (I.e., whether a reporting entity is required to estimate Scope 3 emissions of their supply chain, or if specific elements of the supply chain are required to estimate and provide such data themselves, upon request, at their individual expense).

The NFF understands that Exposure Draft Legislation has been designed to align with developing AASB Standards of which Federal Government has committed to aligning '*as far as possible with IFRS S2 issued by the ISSB*'. As outlined by the AASB in ED SR1:

- **B46:** '*An entity's measurement of its Scope 3 greenhouse gas emissions will be based on data obtained directly from specific activities within the entity's value*

chain (primary data), data not obtained directly from activities within the entity's value chain (secondary data), or a combination of both'.

Although the AASB has provided guidance on this specific issue, a statement to this effect is required in the Explanatory Memorandum. Non-captured entities must not be compelled to disclose sensitive information about their business to reporting entities at their own individual cost if they chose to withhold such information. There also exists a risk that suppliers will offload the regulatory cost of data collection and Scope 3 modelling onto the supply chain. Supply chains may either feel compelled or coerced to estimate and provide Scope 3 emissions to specific entities upon request, despite not being required to do so, to maintain key business relations.

It is unclear how the policy intent that Scope 3 disclosures would represent '*information that is available at the reporting date without undue cost or effort*' is reflected in-practice. This is apparent as no formal guidance has been provided by Federal Government to assist entities determine what methods are acceptable, or available for estimating Scope 3 emissions. In addition to example methodologies outlined within the *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard*, Government must develop separate guidance on additional methods for Scope 3 estimation inclusive of carbon calculators. By creating a credible, referrable document, entities will have greater certainty on what estimation methods are available to them, and what the attributed costs involve. This will reduce the cost and time burden of exploring what options are available and will ensure entities do not create their own be-spoke methodologies, ensuring alignment with the policy intent that disclosures are undertaken '*without undue cost or effort*'.

Captured NGER Entities

Under the proposed legislation, entities that are a registered corporations (or are required to register) under the NGER Act are categorised as Group 1 or 2 reporting entities dependent on whether they exceed the 50,000 tonne CO2-e combined Scope 1 and Scope 2 GHG emissions 'publication threshold'.

In December 2023, the CCA recommended the following policy action to Federal Government[1]:

'*Reporting under the NGER scheme should be extended to agriculture and land emissions in a separate and staged manner*'.

If the scope of the NGER Scheme is expanded to include agriculture and land as recommended by the CCA, NGER reporting agricultural entities will be required to prepare

[1] https://www.climatechangeauthority.gov.au/sites/default/files/documents/2023-12/2023%20NGER%20Review%20-%20for%20publication.pdf

a sustainability report for each financial year irrespective of their revenue, gross assets, or number of employees.

This is a significant concern to the NFF, and we seek to ensure no new additional legislation proposing an expansion of the NGER Scheme to include emissions from the agriculture or land sectors is introduced.

Conclusion

The NFF thanks Treasury for the opportunity to provide strategic comment to this Exposure Draft Legislation. We would be pleased if Treasury is available to present to and brief the NFF Sustainable Development and Climate Change Committee on this proposed legislative reform, with preference for early March.

Please do not hesitate to contact Warwick Ragg, General Manager NRM via e-mail: WRagg@nff.org.au at the first instance to progress this discussion or to seek further clarification.

Yours sincerely,

TONY MAHAR
Chief Executive Officer

Climate Change Policy

Policy Position

The Australian agricultural sector has already reduced its net emissions more than any other sector and remains at the forefront of climate adaptation and action in Australia. Australia's climate policies must recognise producers for the role they play in managing Australia's landscapes, their contribution to food security, and must provide a pathway for a profitable, productive, and sustainable agricultural sector into the future.

The purpose of this policy is to provide a set of principles to reaffirm Australian agriculture's place in the global economy by positioning the sector to take advantage of the social, environmental, cultural, and economic opportunities presented by a low emissions future.

The National Farmers' Federation (NFF) supports Australia's efforts to address climate change. The agricultural sector is focused on ensuring we are contributing to a significant downward trajectory. The agriculture sector understands and expects other sectors across the economy will play their part in reducing emissions rather than expecting agriculture to be the source of significant offsets.

The NFF supports an economy-wide aspiration of net zero emissions by 2050 Provided that:

- There are identifiable and economically viable pathways to net neutrality, including impacts from inputs such as energy;
- Commonwealth and State legislation is effective, equitable and advantageous to deliver on ground programs that benefit agricultural interests and do not provide unnecessary regulatory impediment;
- No sector specific targets are imposed; and

- Global and local food security is considered in conjunction with overarching goals, not separately.

The NFF have not determined a position on a 2030 ambition and recognise many individual commodities have, or are in the process of, setting targets for reductions. However, we recognise that government policy is also a reasonable trajectory towards the 2050 ambition and that there is complexity of how this applies to the agricultural sector. It is best couched as looking for a positive set of outcomes that include a range of policy benchmarks, as outlined below.

Further, as we now move to operationalising climate policy in a productive and sustainable agriculture sector, there are a number of opportunities that we believe should be considered by government to make good on undertakings via the *Powering Australia* policy document and subsequently in government.

For agriculture, the scope 1 and 2 priorities will continue to reduce greenhouse gas (GHG) emissions and seek more efficient and cost-effective ways to address emissions of enteric methane and nitrous oxide. Carbon dioxide emissions in agriculture are already negligible, and where they exist, there will be change as renewable fuel sources become scalable, affordable, and widely available.

In line with trajectories from the Intergovernmental Panel on Climate Change (IPCC), agriculture recognises that the global targets to different GHG are not the same. NFF recognises the IPCC propose to achieve climate neutral outcomes: for methane a 50% reduction from 2005 levels is required and for nitrous oxide, 20% reductions by 2050. The transformation required to underpin these still has significant barriers and requires introducing technologies and innovation at scale to ensure no cost nor productivity impacts on the sector. Failure to support transition will result in unacceptable impacts on food and feed security both in Australia and globally. Government needs to ensure, should it seek to make international agreements, that agriculture is closely consulted on:

- How these agreements will translate;
- How and what assurances will be provided;
- How appropriate reporting metrics can be incorporated to better reflect agriculture's impact and achievement for example including dual reporting of emissions in both GWP* or another suitable metric and existing GWP100 for agriculture;
- Ensuring that they will not unfairly or unnecessarily target agriculture; and
- That the achievements that agriculture has already made are clearly recognised.

Continued investment, including by government, in assisting agriculture to innovate and adapt economically, transition justly and recognise the unique role that agriculture plays through both being an emitter, a sequestor and a food and fibre supplier to the world, are critical drivers and recognised by the Commonwealth Government investment and policy commitments including in *Powering Australia.*
The Research and Development Corporations (RDCs) must continue to support industry to progress low emissions pathways which underpin $100 billion growth, particularly as the impacts of climate change are already and very directly impacting farmers. Government should support coordinated research through RDCs and other research organisations to further the ability of Australian agriculture to continue to progress and promote the leading position in growing low emissions agricultural products it holds. This narrative should enable the government, in conjunction with industry, to ambitiously leverage the low emissions status to secure access to markets.

Governments and industry service providers must have the tools, systems and knowledge required to establish an industry baseline, and be able to communicate this to farm businesses.

As more is understood about the accuracy and viability of alternate reporting metrics, especially for methane from livestock and cropping systems, then ways to utilise those so that agriculture is treated equitably must be progressed.

The NFF will review its position regularly to ascertain if technological and economically credible pathways to achieve this target remain evident.
The NFF's position will be informed by robust science from RDCs and other credible sources which allows producers, industry bodies and agriculture as a whole to establish credible baselines and assess the implications of the policy.
This policy statement is complementary to the NFF policy positions on Natural Capital, Electricity, Climate-Related Financial Disclosure, Energy and Industry Engagement Guidelines for On Farm Activities.

Issue

Australian agriculture has always operated in a varied and challenging climate. The continued success of the Australian agriculture sector will depend on our ability to build on this foundation and continue to innovate and adapt to best manage future climatic risks and to further reduce the emissions intensity of our production systems. We note the important need for Australian agriculture to continue adapting into the future and welcome investments in technology adoption.

There is a great opportunity for Australian agriculture to contribute to our national emissions reduction goals. This opportunity requires innovation to reduce the

emissions intensity and to enable farmers to efficiently participate in emerging markets, including carbon and natural capital markets.

A transition to a low emissions economy will require transformation across a number of sectors, especially energy and transport. It is critical that the suite of government policies that seek to address the challenge of climate change are fully examined, to ensure that the policy levers of government work cohesively to achieve our national objectives, while minimising the risk of unintended or perverse outcomes. A just transition and equitable commitment for all sectors of the economy is critical. While emissions reduction is one goal in climate change policy, broader social, environmental and (particularly regional) community benefits should also be considered. There is a strong need for enhanced guidance on how to manage and incentivise new projects that have multiple co-benefits. This would facilitate a range of technology options and land-based activities which can deliver cost-effective outcomes for emissions reduction and broader economic, social, and environmental outcomes.

The NFF recognises that a number of agricultural sectors will be on a more rapid implementation trajectory. For example, the red meat sector is already substantially investing in its carbon neutral by 2030 (CN30) program and other sectors are committing to outcomes as early as 2030.

In meeting Australia's emissions reduction goals, Australian farmers expect a greater focus on industry and government investment in integrating climate change solutions for the sector. This can be delivered by:

- Focusing on carbon neutral technologies that provide a competitive advantage for existing products;
- Developing new markets, domestic and export, that benefit from innovative carbon neutral technology;
- Collaborating across all of industry to make the greatest gains from the adoption of the latest research and development;
- Adapting and adopting proven and defensible alternate metrics in the National Greenhouse Gas Inventory;
- Enhancing partnerships with private institutions, government, and other industries outside of agriculture; and
- Developing an Australian Agricultural Sustainability Framework to integrate strategies across the whole of agriculture.

Background

The NFF recognises that climate change presents both significant challenges and opportunities for Australian farmers.

The world's population is forecast to exceed 9 billion people by 2050, and demand for food and fibre is on track to increase by 60 per cent in that timeframe. There is no doubt meeting this demand in the context of a changing environment while at the same time contributing to global action to reduce emissions is a global challenge which requires a global response.

In December 2015, 195 countries including Australia, under the banner of the United Nations Framework Convention negotiated the "Paris Agreement" which aims to hold the increase in the global average temperature to well below 2°C and pursuing efforts to limit it to 1.5°C above pre-industrial levels and to increase the ability to adapt to climate change. There is bipartisan support for net zero by 2050 and there is a legislated ambition of 43% reduction from 2005 levels by 2030.

The Paris Agreement specified that to achieve the long-term temperature goal, countries should aim to reach global peaking of GHG emissions as soon as possible to achieve a balance between anthropogenic emissions by sources and removals by sinks in the second half of the century. In 2018, the IPCC issued a scientific report on the potential impacts of global warming and identified that global warming is likely to reach 1.5°C between 2030 and 2052 if it continues to increase at the current rate. The agriculture sector contributes to our national emissions profile by both sequestering carbon in soils and vegetation and the emissions of GHG from farming practices such as livestock production, cropping practices, the use of fertilisers and the burning of savanna grasslands. Combined, agriculture accounts for about 13 per cent of Australia's National Greenhouse Gas Inventory.

Australian agriculture has been the single biggest contributor to emissions reduction since the 1990s, primarily due to the land clearing legislation imposed on farmers to meet Kyoto Protocol emissions reduction targets and the role of land use, land-use change and forestry (LULUCF). As a result, Australia has a stock of Kyoto 'carryover credits' that are able to be used to contribute to meeting Australia's emissions reduction targets.

The sector continues to make significant voluntary industry led contributions to emissions reduction. Between 1996 and 2016, agriculture has reduced its GHG emissions intensity by 63 per cent.

The Emissions Reduction Fund (ERF) and methodologies under the Carbon Farming Initiative continues to be the primary mechanism under which farmers have reduced emissions. Australian farmers make up over half the projects, and carbon credits delivered through the ERF. Renewable energy technologies have also seen a significant reduction in price over the past decade and has been significant uptake on farms. Australian Carbon Credit Units (ACCUs) must be robust and internationally

recognised for their integrity. Should the Chubb *et al* review find technical concerns, they should be addressed and where farmers are impacted, they should be justly compensated including for the lost opportunity. Care must be taken to ensure that philosophical drivers do not compromise the scope and opportunity in delivering methodologies.

Australia is not only bound by its commitment to the Paris agreement, but by the growing expectations of our community and customers about Australia's environmental credentials. Australian agriculture has a role to play in meeting climate responsibilities and moving towards an economy-wide climate neutral goal by 2050 whilst maintaining productivity and profitability.

What the Industry Needs

Policy

Economic

- Clear assurances that targets and taxes will not be placed on agriculture. This will provide certainty around what we can expect from the government in the future;
- Appropriate restrictions are placed on the Safeguard Mechanism such that agricultural enterprises are not adversely impacted by offset purchases that substantially diminish agricultural productivity;
- Acknowledge that mandatory cap and trade policies are not suited to the farm sector, and specifically excluding the sector from such schemes;
- Recognise that more than 75% of Australian agriculture produce is exported, and that as a trade-exposed sector we must remain competitive within domestic and international markets;
- Reintroduce legislation that would see carbon and biodiversity income treated as primary production income for all typical farm business models to ensure that eligible business input deductions can be appropriately offset against farm income;
- Engage in or facilitate the review valuation methodologies at least to the extent that those methodologies are not adequately acknowledging the income or capital growth attributable to carbon and other non-core commodities;
- Ensure eligibility for the instant tax/asset write off includes climate action investments;
- Compensate farmers and/or give ongoing recognition for lost productive capacity due to land clearing legislation imposed on land managers;
- Recognise the significant contribution agriculture has made to emissions reduction since the 1990s, including acknowledging MLAs CN30 target and that the Australian red meat industry has already decreased annual emissions by 57% or 133.36-54.61 Mt; and

- Introduce a new Regional Investment Corporation (RIC) loan to assist farmers undertake emissions reduction activities.

Emissions Reduction Fund

- Acknowledge the role of vegetation and soil carbon in carbon sequestration and overall soil health via full commercial/compensation systems for agricultural land sequestration (both historical and current);
- Ensure that Australia's climate change strategies encourage economy wide action to reduce GHG emissions and impact on the climate;
- In consultation with the agricultural sector ensure that the most equitable, defensible and appropriate reporting mechanisms are used that recognise international reporting obligations, improved or more accurate measurement systems, and apply principles of equity and balance for the agricultural sector;
- Ensuring that vegetation management policies do not burden farmers with the cost of achieving emissions reduction goals, nor unreasonably restrict development;
- Prioritise development of ERF methodologies that encourage and provide ACCUs for adoption of methane reducing livestock feed technologies as soon as they are available. We recognise incentives in the Budget for this, but more needs to be done to support further innovation, methodology efficiency and adoption;
- More encouragement for the agricultural industry towards emissions reduction/efficiency. Models for adaptation should be an investment focus;
- Ensure that the Climate Active certification system is able to keep pace with technology developments coming from industry and ensure that the system rewards the work that producers have already done to make their land a valuable carbon sink;
- All market-based policies that seek to incentivise climate outcomes must have mechanisms such as standardised contract terms, dispute resolution processes, and clear pricing mechanisms; and
- Primary producers need harmonisation of methodologies, reporting frameworks, and schemes across all jurisdictions.

Education & Awareness

- Recognise it may be more beneficial for farmers to identify carbon and use this within their own business (insetting) rather than sell to other sectors (as offsets), and that care is needed to prevent market and regulatory distortions which have perverse impacts; and
- Recognise emissions of (the GHG) nitrous oxide are a specific area for the agricultural industry to address. The nature and impact of nitrous oxide are different to other GHGs, meaning that a net zero target is appropriate for carbon dioxide emissions but not to other GHGs.

Incentives

- Allocate a component of the Building Better Regions Fund to fast-track viability assessment of regional low emissions fertiliser manufacturing capability in regional Australia and ensure funding under the Modern Manufacturing Strategy is directly allocated to improving domestic manufacturing for critical agricultural inputs. We understand a portion from this Fund has been redirected to support economic growth and development across regional Australia, but more must be done regarding domestic low emissions manufacturing for critical agricultural inputs;
- Recognise that embedded emissions are significant and that low/no emission manufacturing technology and alternative inputs are needed as a priority and at a lower cost;
- Provide refundable tax offsets on equipment which reduces emissions such as that use in zero till and controlled traffic systems; and
- Ensure that biodiversity payments are accessible for all farmers, not just in pastoral settings. This could be achieved by incorporating agricultural specific criteria under the Carbon & Biodiversity scheme and future programs and publicly reporting the number of successful projects by farm type.

Coordination

- AGMIN and its Climate Change Task Group to engage with industry on its national action plan as a matter of urgency and commit to publicly reporting on progress;
- The Commonwealth must ensure that the complexity of agriculture's climate change interaction are considered in the development of all relevant sector plans especially the Agriculture and Land sector plan; and
- That the National Greenhouse and Energy Reporting Scheme continues to only focus on fugitive emissions and does not incorporate agriculture.

Operational

Economic

- Support adaptation and ensure that agricultural productivity and farm business profitability can be sustained with changing climatic conditions;
- Focus on innovation and investment in climate research and development that provides robust baseline information, drives innovation and builds resilience, and supports communication, adoption and extension;
- Embrace the opportunities for emissions reduction and sequestration in the farm and forestry sectors and facilitate participation of farmers and foresters in carbon markets and natural capital markets;

- Expand and fund practical on farm extension programs like the Victorian Government's On-Farm Action Plan Pilot, which aims to empower producers to understand, measure and reduce on-farm emissions and provides grants for implementation of the recommended actions; and
- Understand that Australian agriculture is on a trajectory towards climate neutrality. Support and fund programs or schemes to assist Australian agriculture in getting to this goal. Recognising that key areas of focus will be methane and nitrous oxide emissions through the development of for example, methane inhibitors and coating, and/or slow-release fertilisers.

Education & Awareness

- On-farm extension programs should be developed regarding the support of natural capital measurement and markets - as key facilitator of climate change mitigation. Support investment in education decision support tools and awareness programs to assist farmers' understanding of carbon emissions, sequestration, offsets, insetting, and carbon markets. What we would like to see could include:

  a) support for what producers at the farm level are currently doing;
  b) support for navigating current articulating system of markets and incentives;
  c) on farm support to engage in new and emerging practices to increase emissions reductions; and
  d) the need for a positive, constructive and overarching climate policy for the agriculture sector, along with providing incentives and subsidies to farmers, including for batteries.

  This needs to be supported in the short, medium, and longer term.

- Partner with industry to deliver public education initiatives that combat misinformation about livestock production and help people understand the most impactful ways they can reduce their impact on the climate.

Incentives

- Partner with industry to introduce initiatives which lower key on farm emissions and transition to low emissions inputs which are manufactured in Australia.

Coordination

- Ensure a consistent approach to carbon accounting and measurement across agricultural sectors to enable accurate measurement and assist with calculating mitigation efforts and offsets, including through the National Soils Strategy; and

- Develop a comprehensive strategy to address climate change which incorporates the AGMIN National Action Plan.

October 2023