Australian Dairy Industry Council Inc.

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

The Australian Dairy Industry Council (ADIC) appreciates the opportunity to provide comment on Treasury's Consultation Paper on Climate Related Financial Disclosure which seeks initial views on key considerations for the design and implementation of standardised, internationally aligned requirements for disclosure of climate-related financial risks and opportunities in Australia. 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 ADIC has also consulted with Dairy Australia, the national services body for the Australian dairy industry, on the development of this submission.

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 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

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 processing[1]. Dairy companies generate approximately A$15.7 billion in sales[2]. In 2022, 36% of milk production was exported, worth around $3.8 billion.

Dairy Sustainability and Existing Reporting

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.

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[1] In Focus 2022, Dairy Australia

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

Australian dairy farms are among the lowest GHG emissions intensity generators globally – with an average 0.93 kg CO_2e/kg Fat and Protein Corrected Milk (FPCM), and continue to actively work on initiatives to reduce this.

Post-farmgate, the latest Dairy Manufacturers Environmental Scorecard (2020-21) that outlines progress from dairy processors towards the ADSF's 2030 targets, shows 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 41% 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, and the ADIC would be happy to provide indicative costs for undertaking this reporting, as required. 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.

Towards climate disclosure

The dairy industry supports the Australian Government's move to develop standardised, internationally aligned requirements for disclosure of climate related financial risks and opportunities in Australia. 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.

We support the six reform principles as outlined in the Consultation Paper and acknowledge that any reform introduced must: support climate goals, improve information flow, be well understood, be internationally aligned, be scalable and flexible, and be proportional to risk.

Aligned to this, we provide the following points for consideration in the development of Climate Related Financial Disclosure requirements in Australia:

1. **The need to streamline and have regard for** existing industry and financial requirements and legislation:
    - 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.
    - Many of the dairy processing companies operating in Australia produce a dedicated, stand-alone sustainability report using the Global Reporting Initiative (GRI) and other international schemes/programs, which are working towards global best practice for how organizations communicate and demonstrate accountability for their impacts on the environment, economy and people
    - The introduction of any new requirements around financial disclosure of climate risks needs to consider the already high cost of these requirements, that also include audits

on the industry in many cases, and seek to ensure that additional requirements align with current practices, do not impose further significant costs on business and deliver clear benefits to the sector. It is critical for ongoing business viability that any new suggested measures are not viewed as standalone issues.
- Importantly, the definition of 'disclosure' needs consideration having regard for what information is required, by whom and why – balancing the need for transparency of information versus sensitivity of publicly disclosed information.
- This review may therefore be an opportunity to rationalise such reporting to ensure a more streamlined process that does not impose additional hurdles or costs, and generates a material end benefit.

2. **Scope of emissions reporting:**
    - Processing businesses are already well placed to report on Scope 1 and 2 emissions – and as discussed above, in many cases this already happens.
    - Measurement and reporting on scope 3 emissions is less well developed in the sector and would need significant investment and support across the dairy supply chain before it can be accurately and usefully reported.
    - 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 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. 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 – with substantial support needed, including that of government.

3. **Scope of businesses covered:**
    - We propose that businesses should only be included if there is a material benefit to disclosing climate information, particularly recognising the challenges of the current operating environment – contending with a declining raw milk pool, rising input costs and labour shortages. For example, listed companies disclose to inform shareholders. For private, non-listed and smaller family businesses, the benefits of disclosure may be harder to quantify versus the additional costs and risks.
    - It should also be noted that the scope of emissions reporting required – that is, scope 1, 2 or 3 – will also impact the number of businesses impacted. Requiring large businesses to report scope 3 emissions will, by default, place requirements on the associated farm/s and other suppliers who contribute to a processors scope 3 emissions.
    - As discussed under point 2 above, measurement of emissions at farm is an emerging area and needs significant investment to reach maturity.
    - In many cases businesses (small and large) may already be measuring their emissions in some form, however including them within the scope of required climate related financial disclosures could lead to significant additional costs with no/limited overall benefit to the business.

- It is also important that Treasury and Government are mindful of global requirements – exporting businesses should not have additional hurdles to meet that our overseas competitors do not need to meet.

4. **Assurance**
   - If reporting entities 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 – with assurance confined to the methodology used to capture the data, rather than the actual data sets.
   - It will also take time for baseline data and detailed data sets to be established – especially Scope 3 emissions. As there is already a legal requirement for reporting entities to report on scope 1 and 2 emissions into NGERS, any more stringent auditing/assurance at this stage would seem to be unnecessary and duplicate work with questionable value.
   - As capability develops, the standards can be reviewed and any additional assurance needs addressed as required,

5. **Timing of implementation:**
   - Currently there is **no global consensus on climate related financial disclosures**, with consultation underway on an international standard that is in the form of an "exposure draft" only.
   - Australia should consider international progress carefully to ensure any new requirements within Australia are not out-of-step with international arrangements.
   - Treasury and the Australian Accounting Standards Board (AASB) should consult further on the question of timing and roll out once the international standard has been finalised.
   - Additionally, there will also need to be investment in capacity building – in the dairy sector, as in most sectors – which again will take time and investment.
   - The development of a regulatory impact statement (RIS) later in the consultation process will assist with evaluation of options, and is recommended.

The ADIC asks that Treasury continue to consult with the dairy industry in the development of new requirements for climate related financial disclosure. 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 of these important reforms.

Yours sincerely

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