21 July 2023

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Delivered by email to climatereportingconsultation@treasury.gov.au

Re: Climate-related financial disclosure Consultation Paper June 2023

Disclosed below is the submission by the Australian Agricultural Company Limited ACN 010 892 270 (ASX:AAC) ("AACo") in response to the Treasury Consultation Paper *Climate-related financial disclosures* released in July 2023 ("the Consultation Paper").

Introduction

We appreciate the opportunity to provide a submission of our views on the implementation and sequencing of standardised, internationally aligned requirements for the disclosure of climate-related financial risks and opportunities in Australia.

Australian Agricultural Company Limited (AACo) is one of Australia's largest integrated cattle and beef producers and one of the few listed agricultural companies in Australia. Climate action is important to our business; it is one of the priority areas within our Sustainability Framework. We acknowledge our responsibility to mitigate our climate impact and to provide transparent disclosures to our stakeholders on the current and emerging impacts of climate change.

Our response to Consultation Paper 1 on climate-related financial disclosures (January 2023) outlined some of the challenges faced by our organisation, as well as our view on the anticipated challenges for stakeholders across our integrated supply chain. This response is attached within the appendix.

We thank Treasury for considering these views and we note that some of these have been captured within amendments in Consultation Paper 2. We commend the Government's commitment to internationally aligned climate-related disclosures, and the reasonable considerations which have been applied within the proposed requirements.

However, we also acknowledge that successful implementation of this reform will not come without challenges. We offer our views on the challenges we envisage, for our own company and others within the Australian agricultural industry, and we welcome future discussion on these matters. Our views are outlined below.

Considerations

Coverage and timing

We support Treasury's approach to phased implementation of disclosures, which accounts for the variation in sustainability maturity, capabilities, and resources across the corporate sector. We believe the two-year buffer period between Group 1 (2024-2025) and Group 2 (2026-2027) is appropriate and will provide time for smaller companies to learn from early adopters and to build capabilities and resources within this timeframe.

We are conscious that the time horizons for phased implementation will be challenging and will require significant time to prepare. In many cases, businesses will be required to engage third party advisors to undertake scenario analysis and to work with auditors to establish new assurance procedures. For Group 1 entities, pre-assurance processes will likely need to commence as early as 2024. From experience, we know that reasonable time is required for third party advisors and auditors to familiarise themselves with the unique set of climate-related risks and opportunities specific to our industry and entity type. There is no precedent or well-defined approach within our industry. Advisors and auditors will be required to upskill in areas such as enteric methane emissions measurement and technical understanding of soil and vegetation carbon sequestration and flows. Time will also be required to support these third parties to build the resourcing capacity to meet the market demand.

We recommend that the timeline be re-assessed once the disclosure requirements are published, and that the preparation timeline is considered to ensure a realistic amount of time between publishing the requirements and companies having to meet them.

In relation to entity coverage, we agree that the disclosure requirements should apply to all large private companies, including both listed and non-listed entity types, to ensure an equal playing field and to avoid adverse competition impacts. We expect the thresholds will capture a wide variety of listed and non-listed entities across numerous industries and of significantly varying sustainability reporting maturity. Whilst this supports market fairness, it also presents challenges.

Whilst many listed companies have commenced alignment to the Taskforce for Climate-Related Financial Disclosures (TCFD) Framework, it can be expected that many non-listed entities are less progressed on this journey, and even with best efforts, will be challenged to meet the mandatory requirements within these timelines. Additionally, we raise our concern with the readiness of the wide variety of companies which will be indirectly captured under the Scope 3 reporting requirements as early as 2026-27. Of concern is the ability for these companies to prepare for the data and information requirements which will be requested through value chains.

We would welcome further discussion on how government can support the agricultural industry to adequately prepare.

Lastly in relation to coverage, it is unclear how the 'number of employees' threshold will apply to companies with seasonal and contract workers experiencing fluctuations in the total headcount throughout the year, or those which may be undergoing expansion. At this stage, it is unclear whether AACo will meet the thresholds of Group 1 or Group 2 within the 2024-25 reporting period, noting elements of potential expansion across the business, and noting the seasonal fluctuations of our operations. AACo could move beyond this threshold slightly before or within the 2024-25 period, which would require us to meet disclosure requirements by the end of our financial year in April 2025.

For clarity, to ensure certainty and provide greater confidence in the government's approach to climate-related reporting, we recommend Treasury provides a cut-off date for the thresholds. It would make sense that businesses who meet two of any group thresholds at the ***start*** of their financial year be required to report according to the guidelines for that group, in that year. If any company moves above the required thresholds at any stage after that, they would automatically fall into the next group.

While in AACo's case this is relevant when it comes to employees, it would also be beneficial across the other thresholds as well.

We note the current guidelines specify that in order to meet the assets threshold, gross assets must be more than $1b at the end of the financial year. We recommend also moving this to the start of the financial year. This would protect businesses who can't reasonably predict, for example, an increase in property prices that might move them above the assets threshold by the end of the financial year and therefore, into a higher group. Property prices generally aren't assessed and reported until the end of the financial year, meaning many companies could unknowingly have moved into a different group and not be in a position to report.

It's reasonable to expect that agriculture businesses in particular, would have a better chance of estimating and then planning to meet obligations 6 months prior to a cut-off date, than trying to guess 18 months from the end of a period, especially given the unpredictability of weather patterns, market conditions and global economies, all of which can significantly alter the outcomes of each threshold. Specifying a cut-off date at the start of the financial year will provide companies time to prepare.

Note also, the importance of setting the cut-off date at the beginning of the financial year for each business, rather than the traditional July 1 start. AACo's financial year begins on April 1, giving us less time to prepare. Those three months become a significant difference if we are assessed as being in group one and need to start our reporting in the 2024-2025 financial year.

If the above recommendation is not accepted, we recommend providing further clarity on the parameters of the employee threshold, such as whether the total headcount is the average number of employees or the 'peak' number of employees within the period.

These adjustments may only be required during the staged implementation of each group. Once all companies are reporting in a standard fashion the timing of meeting thresholds becomes redundant.

Content

We're satisfied with the reasonable considerations and transition allowances that have been embedded into the proposed disclosure requirements in this Consultation, such as the exemption of disclosing transition plans, targets, and metrics in instances where they have not yet been developed by the reporting entity. We believe this will help to mitigate the risk of companies setting formalised targets and transition plans without the adequate baseline understanding and foundations to support successful execution.

We further support the proposed transition allowances for quantitative scenario analysis. As detailed in our response to the draft Consultation Paper, there is currently a lack of nationally recognised, ground-truthed and verified datasets to underpin quantitative assessment on agriculture-related climate risks, such as the identification of geographical locations which are subject to future drought, fire or flood risk over a long-term time horizon.

There is significant work to be done to reach the level of maturity where companies can accurately determine this information and quantify future financial implications. Whilst we understand qualitative assessments will suffice from early commencement, it is expected that the ability to transition to quantitative assessment will require significant time and internal resources, significant investment to engage third party advisory services, and importantly, greater availability of robust datasets.

We emphasise our concern in relation to publicly available datasets being used to assess climate risks. Our concern is that these datasets may present an inaccurate picture of climate risks, particularly when used by external stakeholders in a supply chain or value chain assessment, such as a bank's assessment of customers or a companies' assessment of their supply chain stakeholders. We have already identified several challenges with datasets which provide an inaccurate representation of our own operations in Northern Australia. If used incorrectly, these datasets may present critical adverse implications for businesses, including access to capital and markets.

Additionally, we acknowledge the intent to include industry-based metrics by end state, however we note the importance of industry and business engagement in the development of these metrics to ensure they are fit-for-purpose and accurately reflect true measures of performance in relation to that industry. With this in mind, we welcome ongoing consultation with Government on the use of agricultural datasets and the development and adoption of industry specific metrics.

Lastly, the parameters for 'forward looking statements' remain unclear within the proposed requirements in this Consultation. We understand that Treasury is seeking to align the climate disclosures with the TCFD Framework. However, it is unclear whether these mandatory disclosure requirements should follow a similar medium and long-term outlook to 2030 and 2050, as recommended under TCFD. We request greater clarity on these parameters in the finalisation of the requirements.

Framework and assurance

Treasury's consideration of phased assurance, including commencing with limited assurance and moving to reasonable assurance over time is appropriate. We do, however, foresee challenges with the availability of third parties with the combined subject matter and industry expertise to provide advisory and audit services to agricultural businesses.

There is currently a limited number of businesses who can provide advisory and assurance over climate-related information specific to agriculture, such as the measurement of enteric methane emissions from livestock and land-based emissions. This challenge will only heighten as Scope 3 reporting comes into effect.

The Consultation paper notes that assurance is to be conducted or led by the financial auditor. We suggest there should be flexibility in the third-party providers to ensure that assurance services are fit for purpose and allow for the use of providers who have the relevant industry expertise.

Enforcement

We acknowledge the future challenges to provide robust, verifiable and auditable climate-related disclosures in an ever-changing environment subject to many uncertainties. We agree with the consideration of liabilities in which companies will be afforded protection from false or misleading representation claims from private litigants in relation to forward looking statements for the first three years.

Conclusion

We thank you for your time taken in considering our views on the Treasury Consultation paper. We are supportive of the Treasury's intentions with regards to transparency on climate-related matters, but note there are many challenges, including those we have outlined in this document. It's important that we get the transition right and to that end further discussions and consultation with AACo are strongly recommended. Our views and suggestions can ensure the right outcomes are achieved for our industry now and in the future.

Please contact our Head of Government and Media Relations, [redacted], for further discussions on this matter.

Yours faithfully

[redacted]

[redacted]

Managing Director and Chief Executive Officer

Australian Agricultural Company Limited

Appendix – Submission to Consultation 1

Re: Climate-related financial disclosure Consultation Paper December 2022

Disclosed below is the submission by the Australian Agricultural Company Limited ACN 010 892 270 (ASX:AAC) ("AACo") in response to the Treasury Consultation Paper *Climate-related financial disclosures* released in December 2022 ("the Consultation Paper").

Introduction

We appreciate the opportunity to provide a submission of our views on the design and implementation stage of climate-related disclosures.

Sustainability underpins everything we do. Our commitment is to leave our world in a better shape; to work hard to mitigate our climate impact and produce food in a way that benefits future generations. A core component of AACo's Sustainability Framework is dedicated to reducing our climate impact through investing in and taking action on climate change. We place the utmost importance on our responsibility for climate action to not only mitigate our own climate impact, but to contribute to nationwide and industry specific sustainability goals and pathways, including continuing to provide greater transparency through enhanced reporting on our performance to stakeholders.

Within this submission, we have provided a brief response to some of the challenges faced by our organisation as well as smaller stakeholders with whom we operate across our integrated supply chain, specific to the cattle and beef production industry of Northern Australia. As one of the few listed agricultural companies in Australia, we appreciate our unique position and responsibility to contribute feedback on proposed reporting requirements.

Given the breadth of topics included within the Treasury Consultation paper and the unique set of challenges faced by beef and cattle businesses, the nuances of these issues are unable to be fully addressed in a written response. We would appreciate the opportunity to meet with Treasury and have a discussion to ensure that these are appropriately represented and considered during this consultation phase.

Company background

Australian Agricultural Company Limited (AACo) is Australia's oldest continuously operating company, originating in 1824 with a crown grant of 1 million acres in the Port Stephens area of NSW. Our company is now one of the country's largest cattle and beef producers and the only listed company of its kind, running approximately 380,000 head of cattle across 30 leased and owned stations, farms and feedlots covering around 6.5 million hectares of land in Queensland and the Northern Territory. We employ over 400 full time equivalents, the majority of which are in operational roles situated on our properties. Our business Is spread across a remote and vast landscape subject to climatic conditions and weather variability in Northern Australia.

Our commitment to sustainability

Sustainability is at the heart of what we do. As an agricultural producer, we are heavily reliant upon a habitable climate and continued access to healthy water, soils, and vegetation. We utilise a range of stewardship practices such as soil and vegetation management, pest and weed control, animal health and welfare management, flood, drought, and fire mitigation, as well as biodiversity protection and regeneration. These practices underpin our productivity and success.

We are committed to reducing our climate impact and transparently reporting on our performance. In 2021 we launched our Sustainability Framework. This was the first of its kind for the Australian cattle and beef industry. The Framework reflects the importance of sustainability in our operations and outlines five key impact areas for AACo, including soil and vegetation carbon, methane emissions reduction, natural capital and biodiversity, animal health and welfare and sustainable innovation.

One example of how we are delivering on our commitments is through our Northern Rangelands Carbon Project which commenced in 2022. We have partnered with Food Agility, Cibo Labs, Mullion Group and Carbon Link to develop a first of its kind method for measuring, managing and forecasting soil carbon sequestration in rangelands, as well as understanding how biogenic carbon works within this landscape. This project is in the early stages and is expected to be completed in 2025. Once complete, the carbon sequestration model will be made available for the benefit of other livestock producers in northern Australia.

We recognise that methane emissions are a significant source of emissions for the cattle and beef industry. For AACo, methane emissions represent approximately 85% of our total greenhouse gas emissions. Currently, there is no proven, scalable or widely adopted solution for methane reduction. To help solve for this, we are partnering with The University of New England (UNE), University of Queensland, Sea Forest and Meat & Livestock Australia on a trial to demonstrate how asparagopsis (a red seaweed) can be used to reduce ruminant enteric methane production.

Alongside these commitments we are pursuing several activities which are fundamental to our Sustainability Framework in the areas of governance, data and reporting. Over the past 12 months we have focused on strengthening our sustainability reporting and understanding our climate-related risks and opportunities. AACo has commenced alignment to the Taskforce for Climate-related Financial Disclosures (“TCFD”). We presented the initial findings from a climate risk and opportunity assessment in the FY22 Sustainability Report and disclosed information regarding climate risks in the Operating and Financial Review of our FY23 Half Year Results. Strengthening this alignment and relevant disclosures is a priority area for the company moving forward.

The challenges that we face

Whilst we have bold ambitions and a strong focus on sustainability, we recognise that executing on sustainability and reducing our climate impact does not come without challenges.

There are a unique set of challenges which come with the size, scale, remoteness, and the geographical spread of our properties. Our footprint encompasses the northern rangelands spanning the Victoria River District, Barkly Tablelands and Queensland’s Gulf Country, extending down into the flooding Channel Country in south-western Queensland and across to the Darling Downs of south-east Queensland. We are exposed to variable weather patterns in tropical and semi-arid climates which are unique to the north and distinctly different to other production regions in Australia.

Our operations are vast. Brunette Downs is one of our properties which is situated on the Barkly Tablelands and covers more than 1.2 million hectares alone. Brunette is 350km north-east of the nearest town Tennant Creek, and 660km northwest of Mount Isa in Queensland. Being so remote means we are faced with challenges such as internet connectivity, long transportation routes and times, as well as limited access to materials and resources.

Simple improvements to reduce our climate impact can often be constrained by the remote and vast nature of our operations. For example, we are pursuing a long-term asset management plan to upgrade the infrastructure and buildings on our properties to be more energy efficient. Simply getting the materials to our locations, and sourcing labour to fulfill contracts, are not simple feats. This is just one of many examples.

Additionally, much of the north is Crown land held under state and territory pastoral leases. Under these arrangements, land use activities often require approvals from various government bodies, which present challenges in relation to land use change and carbon opportunities.

The beef and cattle industry faces unique challenges in respect to climate impact. Methane emissions reduction and carbon sequestration represent the most significant opportunities for the industry to contribute to the solution for global warming and to mitigate our climate impact. However, building the technology, tools and science to address these areas will take time, partnership and significant investment before a viable solution is developed and able to be implemented at scale. To date, AACo has been a first mover in the industry in this space.

We acknowledge our responsibility to contribute to nationwide and industry specific sustainability ambitions. To date, AACo has taken a leading role in the industry to identify sustainability opportunity and solutions. We have invested significant time, materials, data and investment into large scale research programs on carbon and methane emissions.

Many other agricultural businesses have, and will continue to, look towards what AACo does. Within this submission we have sought to represent our views, but also highlight the challenges faced by the broader agriculture sector and beef and cattle industry.

Our views on key considerations of the Consultation Paper

Covered entities

We believe that Australia should adopt a phased approach whereby climate disclosures initially apply to certain listed entities, before being extended to other smaller listed entities.

While other countries such as the United Kingdom and New Zealand have developed boundaries of inclusion based on company turnover and employee base, we suggest that Australia's approach should build on this with additional consideration to industry and geographic specific nuances.

Accounting for our results under AASB 141 *Agriculture* presents a unique set of circumstances and complexities, which should be considered in setting a boundary of inclusion for reporting. Agricultural businesses typically have a significant asset base, however profit margins are relatively low in relation to turnover on long-term averages. Requirements to mark-to-market biological assets can result in significant gains or losses being recorded in certain years, and whilst unrealised, can have a material impact on financial results. We believe any boundary of inclusion based on enterprise value would unduly capture these mark-to-market fluctuation which are the result of volatile market prices, and is inappropriate as a measure of business performance in companies such as ours, given agricultural assets are held and used for production rather than trading assets.

Data published on ABARES[1] highlights the disparity in the beef farm industry regarding the carrying capacity and size of properties. As shown on the below table, the vast majority of properties carry fewer than 5,000 head and are SMEs, of whom resources are even more limited, therefore leaving a very small number of entities upon which the reporting requirements could be imposed.

Financial year	Region	Farm herd size	Performance group	Number of farms	Farm area operated
2020–21	All Australia	Less than 1,000 head	All farms	16,380	2,194
2020–21	All Australia	1,000 to 5,000 head	All farms	2,561	46,990
2020–21	All Australia	More than 5,000 head	All farms	526	260,954

Further consideration should be given to the holistic timing of implementation. The ability to meet climate-related financial disclosure requirements as soon as FY2024-25 assumes that companies are significantly progressed on their journey of TCFD alignment. Across the board, the degree of alignment between companies, from partial alignment to full alignment, varies significantly. Some companies have reached full alignment including quantitative analysis of the financial impacts of climate risks. Companies at this stage of alignment are arguably well prepared for mandatory disclosures.

There is, however, a very large cohort of companies that are in the early stages of partial alignment to TCFD, with significantly more work required to reach the disclosures which are expected to come with mandatory disclosures as identified in the *Comparison [Draft] IFRS S2 Climate-related Disclosures*. This step change, and the significant variance in company preparedness, should be considered in the initial timing and phased implementation of disclosures.

To date, we have observed the significant benefits that come through the institutionalisation of sustainability reporting, including the learnings that can be taken from large, listed entities (with large reporting and sustainability teams) that have been first movers and outlined a precedent for smaller companies to follow. As the sustainability reporting landscape has rapidly evolved, AACo has already benefited significantly from the precedents set by these companies.

Lastly, we believe it may be worthwhile considering a “comply or explain” mechanism which combines voluntary compliance with a legal obligation and provides companies with a leeway period to prepare. For AACo, this would allow us the opportunity to transparently explain the challenges we face and how we intend to resolve them, to our investors and other stakeholders. This should also serve as a communication channel to Government whom, using this information, can support the adoption of the disclosure requirements over time.

Scope 3 emissions

We suggest that Scope 3 emissions should be phased in over time, to allow us and our vendors sufficient time to prepare for accurate Scope 3 measurement and reporting.

[1] Brown, A, De Costa, C & Guo, F 2020, Our food future: trends and opportunities, ABARES, Research Report 20.1, Canberra, January, DOI: 10.25814/5d9165cf4241d. CC BY 4.0.

There are many challenges to reporting on Scope 3 emissions. Of note are the unique challenges within agricultural supply chains, industries which rely on agricultural inputs, as well as financial institutions with agricultural customers. We are well versed in the challenges of measuring our Scope 1 & 2 emissions, all of which will be exacerbated for smaller companies which will soon come under Scope 3 reporting requirements.

Of note are the challenges around accurately measuring emissions sources such as methane, manure management and carbon sequestration. Our Rangelands Carbon and Asparagopsis projects are examples of the steps we are taking to begin to solve these challenges.

Additionally, incentive mechanisms have not been developed to enable equitable reductions in Scope 3 emissions throughout agricultural supply chains. In a typical food and agricultural supply chain, over 80% of the total emissions will be sourced from the farmgate. To date, the onus of responsibility has fallen on farmers to reduce this impact, with little to no reward. Incentive structures need to change to enable capital to flow back to the farmgate for practice change, such as premiums paid to farmers for carbon credits. Without these structures, mandated decarbonisation pathways may lead to a significant disadvantage to the farm sector.

AACo are currently working on a project to identify the boundaries of AACo's Scope 3 emissions. Early insights show that these sources will likely be derived from feed inputs, farming inputs, meat processing, and logistics and distribution throughout our supply chain right in both domestic and export markets.

Many of our indirect emissions upstream in our supply chain come from small to medium sized businesses in rural and remote communities which face unique challenges such as limited internet connectivity and access to materials and resources. These connectivity challenges foster a business environment still heavily reliant on manual, paper-based processes, as electronic methods are seen to introduce friction given this lack of connectivity.

We recognise that many of these businesses do not yet have the systems and capabilities to provide us information to meet the requirements of credible and accurate Scope 3 GHG emissions reporting, with many reluctant to adopt these technologies until infrastructure investment brings improved connectivity. Additionally, the remote nature of the Australian cattle industry operations places an inherent restriction on supplier growth, limiting the fulfillment capabilities of any single supplier. Large-scale operators such as AACo therefore source goods and services from a large number of very small suppliers, adding to the complexity of these calculations.

Most of our downstream emissions are derived from large companies including meat processors, logistics suppliers and distributors. We expect the Scope 3 emissions data to be easier to fulfill, however we also recognise that managing these emissions will require significant collaboration. Again, mandating these requirements too soon may result in inequitable management responsibilities and costs between stakeholders in end-to-end supply chains.

Data challenges

Data is one of the most fundamental challenges to solve in the agricultural sustainability landscape. To date, there is no single example of a national sustainability dataset which takes into account the variance in agricultural production systems and geographic diversity.

In the context of beef and cattle production, technologies such as satellite land condition data, remote water monitoring, and pasture growth models can improve productivity and contribute to improved environmental management. However, internet connectivity and sufficient infrastructure remain significant barriers to adoption. For example, we are currently exploring options for tracking water usage on a per trough basis, noting our 6.5 million hectares of land being managed and used for breeding, backgrounding and feedlotting our cattle. This has required significant capital investment.

There are further limitations in data availability in northern Australia. Many of the climate datasets which are used to support TCFD scenario-analysis and assessment are built at a national and global scale and have significant gaps when applied to our operations. Namely, we have experienced challenges where these datasets have not been validated on ground and rely on modelled or unvalidated remotely sensed sources. This makes climate risk assessment challenging for businesses, such as AACo, which are operating in remote and vast landscapes.

We believe that Government will play a key role in helping to address this issue and supporting agricultural businesses to prepare for sustainability data requirements. We welcome the National Agricultural Traceability Grants Program – Sustainability Reporting Uplift Grants Program, which seeks to build the agriculture sector's data capabilities to meet emerging international requirements and standards. We welcome other similar funding programs from the Government to support businesses on this journey.

Industry-specific metrics

We believe there is significant discussion yet to be had on how mandatory sustainability disclosures and associated metrics account for the variance across industries, production regions, and landscapes. There are many questions yet to be answered on the how climate impacts can be financially quantified noting these variances.

We propose that if a common set of metrics is adopted, it should be industry-specific rather than economy-wide. The introduction of the Forest, Land and Agriculture (FLAG) Guidance is a good example of the value of an industry specific approach, whereby the Science Based Targets have taken into consideration the reasonable reduction target for beef, which is different to other agricultural commodities. This has been valuable guidance for our business as we seek to develop climate-related targets.

We suggest that industry-specific metrics should be developed in consultation with the agriculture sector and with companies such as AACo.