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

*Delivered by email to* [climatereportingconsultation@treasury.gov.au](mailto:climatereportingconsultation@treasury.gov.au)

## **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) (“AA Co”) 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 AA Co’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<sup>1</sup> 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

<sup>1</sup> 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.

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.

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.

## Conclusion

We thank you for your time taken in considering our views on the current draft Treasury Consultation paper. We support 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] or [REDACTED], for further discussions on this matter.

Yours faithfully

A large black rectangular redaction box covering the signature of the Managing Director and Chief Executive Officer.

Managing Director and Chief Executive Officer  
Australian Agricultural Company Limited