



Sustainable Finance Unit
Climate and Energy Division
The Treasury
Langton Crescent
PARKES, ACT 2600

SUSTAINABLE FINANCE STRATEGY - CONSULTATION PAPER SUBMISSION RABOBANK AUSTRALIA

	Rabobank Australia Ltd ABN 50 001 621 129 AFSL 234 700
Postal Address	GPO Box 4577 Sydney NSW 2001
Office Address	Darling Park Tower 3 Level 16, 201 Sussex Street Sydney NSW 2000
Telephone	0411080268
Internet	www.rabobank.com.au

About Rabobank

Rabobank Australia is Australia's only specialist food and agribusiness bank and a leading financier to the sector, helping farmers, SMEs and large corporate clients.

We are part of an international co-operative group based in The Netherlands, with more than 1500 staff working from over 60 offices across Australia and over 43,000 people globally in 37 countries. Rabobank offers unparalleled research expertise with extensive international reach and work closely with our clients under the global mission of 'Growing a Better World Together'.

We have a robust strategy that embeds sustainability in everything we do, and a focus to:

- **Act on Climate** including supporting Paris Climate Agreement and Net-Zero Banking Alliance goals
- **Protect and Restore nature** by acting on the Finance for Biodiversity Pledge and Taskforce on Nature-related Financial Disclosures
- **Enable People** by committing to UN Guiding Principles on Business and Human Rights and OECD Guidelines on Responsible Business Conduct

We do this through:

- **Customer** - helping customers transition to a sustainable future through client insights and knowledge
- **System** - helping move the system in a sustainable direction through systemic change
- **Portfolio** - growing a sustainable portfolio in a conscious way

We are also focused on two key sector transitions:

- **Food system transition** - toward a future proof system based on responsible production and consumption of food

- **Energy transition** - toward a future proof system based on responsible energy production, distribution and consumption

Introductory comments about our submission

Rabobank welcomes the Sustainable Finance Strategy. We believe the success of the strategy will depend on access to high-quality, credible and comparable information that addresses the financial risks that climate change and other ESG issues present to firms, and the impact of firms on climate, the environment and society.

The strategy should complement Australia's wider climate and environmental policies. There is a need for real economy targets and policy settings as the ultimate drivers of sustainable finance flows which, for the food and agri-sector, includes

- the ability to measure on-farm/business data;
- capability development within the sector;
- clear transition pathways and plans for commodity sectors; and
- support for on-farm emission reduction and sequestration opportunities;

We appreciate a 'climate first' approach to sustainable finance reforms. As it relates to finance flows to the agriculture sector this needs to include climate adaptation from the start, given the exposure of the sector to physical climate-related risks. Addressing nature and biodiversity should also be prioritised given the impacts and dependencies of the sector.

There is additional opportunity to adopt a more holistic approach that also considers the social dimension which for the food, agriculture and land sector may include considerations such as food security, health of rural and regional communities; and incorporating First Nations perspectives. At a minimum it is important to consider potential synergies and trade-offs between climate, environmental and social issues in order to avoid any unintended consequences.

New requirements must be as simple and useable as possible, and proportional and relevant to the needs of different sectors – particularly around disclosure requirements. We see collaboration and shared responsibility at heart of the approach applying **across** sectors AND along value chains **within sectors**.

As an international bank with a global portfolio, international alignment of sustainable finance policies and frameworks is essential to allowing us to operate effectively, and we support the approach outlined in the consultation paper.

Our submission addresses the priorities which have the most significant impact for Rabobank.

We welcome the opportunity to respond to this public consultation on Sustainable Finance Strategy and, look forward to further engagement about the progress of this strategy.

Priority 1

Establish a framework for sustainability-related financial disclosures

- What are the opportunities for Government, regulators and industry to support companies to develop the required skills, resources and capabilities to make climate disclosures under the proposed new obligations?
- How should the Government, regulators and industry prepare for global developments in sustainability-related financial disclosure frameworks and standards, including the TNFD?

Rabobank supports the introduction of mandatory climate-related disclosures in Australia. As well as being a disclosure preparer ourselves, the disclosures produced under the regime by our clients will help us understand the climate-related risks and opportunities associated with our lending portfolio.

Rabobank Group already issues voluntary disclosures aligned the Task Force on Climate-Related Financial Disclosures (TCFD) and is a member of the Task Force on Nature-Related Financial Disclosures (TNFD). As an EU headquartered bank, we are currently preparing for reporting under the Corporate Sustainability Reporting Directive (CSRD). These experiences inform our perspective on sustainability-related financial disclosures in Australia.

Role of Government

Government has an important role to play in supporting the development of capability in financial institutions and other businesses, including capability development in technical areas such as scenario analysis, use of climate-related data, transition planning, and GHG emissions accounting.

Provision of guidance

The provision by Government of guidance material to accompany the proposed climate-related disclosure standards would be useful, noting that while global resources do exist, guidance should be Australian specific and explicitly address the requirements of the AASB standards. Recognising the unique challenges that different sectors will face in meeting the proposed new obligations, the development of sector-specific guidance is desirable. Of particular interest to Rabobank, this could include guidance directed at the banking sector, as well guidance for real economy sectors such as food and agriculture. Such guidance should be developed in collaboration with the sector in question (via relevant industry bodies).

Provision of data

As noted against Priority 7, the Government should focus on making available the data needed to support sustainability-related disclosures.

Capability development across the economy

Like other large organisations with obligations under the disclosure regime, Rabobank will require information from our clients to support our disclosures. For the regime to be successful, there is a need to build appropriate capability within the broader economy including smaller businesses (in Rabobank's case our farming clients) who may not themselves be captured by the regime.

Whole-of-government approach

Where specific disclosure requirements touch on other regulatory requirements, there is opportunity for alignment across government bodies. For example, climate scenarios developed to support the scenario analysis requirements of the disclosure regime might also form the basis of future CVA-style stress testing exercises by APRA.

International alignment

Rabobank supports the adoption of International Sustainability Standards Board (ISSB) standards as the basis for Australia's mandatory climate-related disclosures. Future developments should consider interoperability with regimes in other jurisdictions and ensure appropriate flexibility is built into the Australian regime for international firms operating in Australia, so that local disclosures are consistent with those of the Group entity.

The Australian Government and regulators should also engage in the development of international frameworks to support specific aspects of the disclosures and ensure appropriateness for Australia. For example, as an agribusiness bank, of interest are developments to the Partnership for Carbon Accounting (PCAF) standards, and the GHG Protocol Land Sector and Removals Guidance, which will inform our financed emissions disclosures.

Future global developments

Rabobank supports the Government's proposed 'climate first' approach to mandatory sustainability-related disclosures. In the case of future developments, such as the TNFD, time will be needed to develop maturity in a voluntary context before including as part of a mandatory regime. Implementation will need to be accompanied by Government support in developing the necessary capability and data.

Priority 2

Develop a Sustainable Finance Taxonomy

- What are the most important policy priorities and use cases for an Australian sustainable finance taxonomy? What are the key insights from international experience to date?
- What are priorities for expanding taxonomy coverage after the initial focus on climate mitigation objectives in key sectors?
- What are appropriate long-term governance arrangements to ensure that the taxonomy is effectively embedded in Australia's financial and regulatory architecture?

Rabobank supports, and is involved with, the Australian Taxonomy Development Project which the Australian Sustainable Finance Institute (ASFI) has commenced in partnership with Treasury. As part of an international bank headquartered in the EU, we also have experience with the implementation of the EU taxonomy.

Taxonomy priorities and use cases

The primary purpose of the taxonomy should be to support the mobilisation of private finance toward sustainable activities. Developing a specific Australian taxonomy allows for definitions that are uniquely relevant for the Australian context. Before incorporating into mandatory disclosures or other regulatory use cases, there is a need for data challenges to be addressed and for additional capacity building. The taxonomy must be robust enough to not unintentionally disadvantage or impede financial flows to sectors where the transition may be more complex – such as the food and agri-sector.

The taxonomy needs to work together with other aspects of the Sustainable Finance Strategy and the Government's broader sustainability objectives. In particular it can support sectoral decarbonisation plans and corporate transition planning.

Taxonomy coverage

We see a range of priorities for expanding taxonomy coverage beyond climate mitigation including climate adaptation, the circular economy and natural capital. Prioritisation efforts should consider the materiality of other sustainability issues for different sectors. For food and agriculture, prioritising climate adaptation and resilience, and expanding coverage to include nature and biodiversity (given the impacts and dependencies of the sector) would be consistent with Australia's broader sustainability priorities and goals. The current work on climate mitigation needs to consider the role of land-based carbon sequestration.

With agriculture identified as one of the initial priority sectors, to optimise sustainable finance flows we recommend considering the food system as whole, and the land sector more broadly, consistent with the agriculture and land sector decarbonisation plan. In addition, the current focus on climate mitigation in agriculture needs to consider the role of carbon sequestration.

Priority 3

Support credible net zero transition planning

- What are key gaps in Australian capability and practice, including relative to 'gold standard' approaches to transition planning developed through the TPT and other frameworks?
- To what extent will ISSB-aligned corporate disclosure requirements improve the transparency and credibility of corporate transition planning? What additional transition disclosure requirements or guidance would be most useful in the medium-term?
- Are there related priorities and opportunities for supporting enhanced target setting and transition planning for nature and other sustainability issues?

Globally, Rabobank's focus is on contributing to two key sector transitions: the food system transition and the energy transition. We are a member of the Net Zero Banking Alliance and have committed to reach net-zero financed emissions in our portfolio by 2050. We have embarked on transition planning and have set 2030 emissions intensity targets for priority sectors, including the beef sector in Australia.

We note, as a member of the Net Zero Banking Alliance (NZBA), special attention needs to be given to aligning local and global definitions and objectives for domestic banks, that are also members of the NZBA. A consistent playing field will reduce any ambiguity and ensure accountability for all financial market participants.

Real economy transition

Corporate transition planning needs to be consistent with – and be dependent on – real economy targets and policy settings. The food, agriculture and land sectors represent a part of the Australian economy most exposed to climate and nature-related physical and transition risks, and accordingly, where some of the key opportunities to reduce emissions, build resilience, and repair nature lie. However, there is currently a gap between corporate goals and the underlying transitions that needs to occur on farm. We recommend Government priority be given to developing clear sectoral emissions reductions targets, pathways and plans, including for the agriculture and land sector in consultation with those most impacted (farmers, small business, large corporates).

Provision of data

Transition planning requires credible and meaningful data, and consistent measurement tools, to support setting and measuring progress against targets.

As noted against Priority 7, Government has a role to play in making available the necessary data. In the case of the food and agriculture sector, the credibility and transparency of corporate transition plans may be limited by the lack of available data at an on-farm level where the bulk of the physical transition needs to occur.

To set meaningful targets and plans, an ability to baseline agreed metrics with standardised measurement tools, and then prioritise activities that support common transition goals is important. Transition planning needs to include focus on activity at farm level and identify what, why and how to measure emissions and natural capital.

Disclosure requirements

We note that approaches elsewhere (for example the UK's Transition Plan Taskforce) have to date focused on transition plan disclosure frameworks and requirements. In Australia, we recommend greater focus of the activity of *transition planning* coupled with support from Government and regulators via the provision of sector-specific guidance. The emphasis should be the integration of transition planning into core business strategy. Additional requirements around disclosure of transition plans might subsequently follow.

Transition planning for other sustainability issues

Target setting and transition planning should be broader than the transition to net zero. From a climate perspective, it should also consider Australia's transition to a more climate resilient economy, bringing in considerations around adaptation planning and building resilience.

As a signatory to Finance for Biodiversity pledge, we also believe that transition planning should ultimately also address nature- and biodiversity-related goals and targets consistent with the Kunming-Montreal Global Biodiversity Framework (GBF). A priority for Government that would support nature-related corporate transition planning would be translating the goals of the GBF into Australian targets and policy settings.

Priority 6

Identifying and responding to potential systemic financial risks

- Are there specific areas where the Government or regulators could further contribute to market-wide understanding of systemic sustainability related risks, including climate-related financial risks?

As a lender to the food and agriculture sector, Rabobank's risk profile reflects the full range of climate-related physical and transition risks to which the sector is exposed. We are currently evolving our approach to managing climate-related and other ESG risks by putting in place a more structured approach that accounts for how these risks are likely to develop over time. As an EU headquartered bank, our approach is in large part driven by EU regulatory requirements.

Broader understanding of sustainability-related risks

A need to improve market understanding of sustainability-related risks beyond climate exists which can be enhanced by Government involvement. Better understanding of nature-related risks needs to be prioritised, including underpinning future TNFD disclosures – which is a particular focus for Rabobank as an agribusiness bank, given the impacts and dependencies of the food and agri- sector on nature.

Government could also contribute to a greater understanding of the interrelation between climate-, nature- and other sustainability-related risks, and how these may compound each other. We see a need to develop an understanding of indirect risks arising in companies' value chains and from sustainability-related developments in export markets, as well of Australia's competitiveness against competing supply regions under different climate scenarios. This understanding is particularly important for Australia's trade-exposed sectors such as agriculture, and lenders to those sectors.

Provision of data

As noted in Priority 7, the Government could make available the data needed to support sustainability-related risk assessments, particularly physical climate- and nature-related risk data.

Capability development across the economy

Developing capability in climate-related risk management across the economy, not just within financial markets can be better achieved through Government leadership. As an agribusiness bank Rabobank sees value in additional Government support in developing capability within the farming community, including around the use of longer-term climate projections and adaptation planning.

Transparency

To build capability among market participants, greater transparency around the analytical work of Treasury, RBA and APRA on climate- and other sustainability-related risk would be welcome. This could include sharing additional detail on methodologies, modelling approaches and data sources, noting the example of APRA's recent Climate Vulnerability Assessment where limited detail was shared with the non-participating banks.

International alignment

As an international bank, Rabobank strongly supports the continued engagement by regulators with international bodies such as the Network for Greening the Financial System (NGFS) to ensure Australian approaches to sustainability-related risk are based on best practice and aligned with international developments in areas such as scenario development.

Priority 7

Addressing Data and Analytical Challenges

- What are the priorities for ensuring that data-related initiatives already underway are tailored to meet the needs of firms and investors?
- What key sustainability data gaps or uncertainties faced by financial institutions in Australia should be prioritised by the CFR?

With the Treasurer requesting the Council of Financial Regulators assess options to address key sustainability-related data challenges faced by financial sector participants, Rabobank welcomes the opportunity to engage further on this matter (particularly as it relates to Agri-sector data), with some initial suggestions on what that assessment should consider provided here.

'Decision-useful' information

Information needs to be in a decision-useful form for market participants. The current provision of physical climate-related data from government agencies including BOM, CSIRO et al, could be better operationalised by translating 'raw' climate data (such as modelled temperature increases under different scenarios) into sector-specific real economy risk indices, and ultimately into financial risk metrics – a role both Government and specialist private-sector data and analytics providers can play.

Data and information easily locatable and accessible

Government should bring together existing (State and Federal) climate and environmental data into a more user-friendly format available via appropriate platforms and interfaces (including API) to meet the needs of financial market users, noting the newly created Environment Information Australia may lead here.

Further, the Government is key in providing the infrastructure to enable sharing of sustainability data (including GHG emissions data) within supply chains and with the financial sector. With enterprise level calculators currently sitting with AIA responsibility, we strongly suggest moving this capacity to fall under the NGGI with the guidance, ownership and management sitting with the DCCEEW.

Granular data to inform decision-making

Data needs to be sufficiently granular to inform decision-making. For lending to the food and agriculture sector, this includes property-level geospatial data such as downscaled physical climate data and satellite imagery illustrating land use, as well as farm-level GHG emissions calculations to support accurate measurement and disclosure of financed emissions.

Key sustainability data gaps

As a bank we need to aggregate data from a wide variety of sources and recognise the gaps identified in the paper around:

- client-level GHG emissions data to support estimation of financed emissions;
- data to support climate-related risk assessment; and,
- data on nature-related impacts and risks.

Government can develop sector-specific climate scenarios for use by businesses, including to support requirements on scenario analysis as part of climate-related disclosures. For the banking industry, in the interests of international alignment these should be based on the NGFS scenario set, adapted and downscaled for the Australian context.

Finally, a key barrier to the ability of financial institutions to provide sustainable finance products is a lack of metrics that underpin sustainable product frameworks, as also noted against Priority 2.

Specific challenges faced by the food and agriculture sector

It is critical that a standardised approach is developed that enables land managers to collect and report on sustainability-related metrics in a uniform way. This needs to form part of the framework for sustainability-related financial disclosure, specific to the food and agriculture sector.

To address this, considerable engagement with land managers within the sector must be prioritised and underpinned by the introduction of a value proposition to support the transfer of data within the supply chain, such as incentives.

The value proposition needs to focus on encouraging land managers to measure and monitor relevant sustainability-related metrics. Currently land managers in the rural context – while not obligated to measure – are triply challenged by a lack of clarity about why it is important to measure, what they need to measure and how they can measure.

Priority 10

Catalysing sustainable finance flows and markets

- What role can the CEFC play to support scaling up of sustainable investment in Australia, as part of a more comprehensive and ambitious sustainable finance agenda?
- What are the key barriers and opportunities for the CEFC to support financing and market development in areas with significant climate co-benefits, including nature and biodiversity?

De-risking investment

There are a range of opportunities that may underpin the scaling of sustainable investment in Australia including the exploration of de-risking tools – given some sectors need to de-risk more than others. Government can play an effective role in supporting and accelerating the transition through a suite of capital options which (including equity), potentially grants, and even incentives for farmers.

Both the food system transition and energy transition require a significant amount of capital in the coming years. We don't see that traditional lending models are fit for purpose and suggest the CEFC could play a key role in de-risking investment cases by using its capacity to act across the full capital spectrum from senior debt to equity.

We believe this creates opportunities for blended finance solutions where the CEFC can collaborate with commercial banks on supporting the transitions.

CEFC mandate

We support expanding the CEFC's mandate to include financing of climate adaptation and resilience, as well as nature and the circular economy. Such investments in the agriculture sector could build natural capital on farm, regenerate the land, and support landowners in diversifying land use to take advantage of carbon sequestration opportunities.

Rabobank welcomes the opportunity to continue and expand our collaboration with the CEFC in co-developing opportunities to incentivise our food and agriculture customers on their respective transition journeys.

Conclusion

To achieve our shared ambitions and transition targets, a meaningful and comprehensive Sustainable Finance Strategy based on consultation and engagement with financial markets is a must. Rabobank acknowledges the significance of the transition to net zero and the key role financial markets play in driving sustainability across a range of touchpoints including clients, our business, supply chain and the community.

As a leading food and agri-business bank, we believe Rabobank offers an unparalleled set of international and domestic insights, and we thank Treasury for the opportunity to demonstrate our expertise.

We welcome the opportunity to provide further clarity on any element of our submission should it be useful to your consultation.