

The impact of market based environmental disclosures on Australian red meat

Assessing the potential impacts and mitigations of market-imposed environmental disclosures for Australian red meat processors

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Project Description

The red meat industry is at the forefront of global scrutiny on environmental performance. While there are no regulated requirements for reporting environmental performance in international markets at present, moves are being made to develop these reporting frameworks.

For the processing sector to prepare for future obligations, this project was commissioned by AMPC to gain an understanding of the likely disclosures the industry may need to comply with. The project also looked at the likely impact of market-imposed environmental disclosures on the red meat industry, the level of preparedness to respond and a review of reporting capacity in existing industry platforms such as Meat Messaging.

This investigation identified three regulatory frameworks that pose the greatest risk to the Australian red meat industry, namely the Carbon Border Adjustment Mechanism (CBAM), Product Environmental Footprint (PEF), and EU Deforestation Regulation (EUDR). All three frameworks are initiatives of the European Union, often viewed as the global leader in developing market-imposed disclosure requirements. Despite the EU not being a significant export market for Australian red meat, systems developed in the EU are likely to become precedents for trade in other markets and mirrored in other major export destinations, such as Japan, the USA, China, and South Korea.

The project objectives were outlined as follows:

- 1.1 Assessment of the timing and impacts of proposed product environmental footprint regulations and carbon adjustment mechanisms to determine how Australian red meat exporters would be positioned to respond.
- 1.2 Consideration of the disadvantages faced by Australian red meat exporters to meet these regulatory (and associated commercial) requirements, as well as comparative advantages that may occur against competitor suppliers.
- 1.3 Analysis of mitigating steps that the meat processing sector and individual enterprises could take to reduce the impact of introducing border adjustment or environmental disclosure requirements.
- 1.4 Assessment of the potential for existing platforms (e.g., Meat Messaging) to facilitate the transfer of environmental disclosures to meet customer and regulatory requirements.

Project Content

The review analysed the major market based disclosure frameworks; the CBAM, PEF, and the EUDR. These are described as follows. The CBAM is a tool that can be used to put a fair price on carbon emitted during the production of carbon-intensive goods entering the EU while encouraging cleaner production in non-EU nations. It imposes additional costs and regulatory compliance burdens on industry for the disclosure of carbon footprints. The transition period commencing 1 Oct 2023 requires EU companies importing CBAM-listed commodities (cement, iron and steel, aluminium, electricity, and fertilisers) to report their relevant carbon permit equivalents. However, the requirements to purchase permits (and thus pay taxes) only begin on 1 Jan 2026.

PEF is the EU's recommended life cycle assessment (LCA) based method, establishing a common way to quantify and measure environmental impacts and performance of products using reliable, verifiable, and comparable

information. It aims to compare exports from various countries with EU domestic production and other competing export nations, essentially developing into a non-tariff trade barrier. It exposes industry to other environmental indicators performance comparison other than climate change and greenhouse gas (GHG) emissions, such as land use, water scarcity, acidification, eutrophication, toxicity, etc. The transition period commenced in 2019 and was scheduled to end in 2024, although timelines in PEF have undergone multiple extensions.

EUDR is a rule aimed at avoiding the purchase, use, and consumption of any product that contributes to deforestation and forest degradation in the EU and globally, especially activities associated with agricultural expansion. Beef is one of the seven key products relevant to this regulation. It poses a barrier risk of precluding access into a premium market. The transition period runs from June 2023 to June 2025, likely expanding to include a wider product range and other ecological environments such as savannahs and wetlands. The expected impacts include barriers to market access, the burden of compulsory compliance, competitive price pressure, and the cost of practice change.

Project Outcome

Currently, none of these initiatives has an immediate impact on the red meat industry. The first phase of CBAM (Oct 2023–Dec 2025) does not cover red meat products and the industry can maintain a watching brief on the outworking of this policy in the first phase of implementation to determine risk post 2025. PEF faces strong objections from agricultural lobby groups and is now voluntary rather than mandatory until further notice. It is expected to be adopted by at least some European countries (France being a leading country) and exporters should review requirements in the countries they export to. Over time, it will also gain traction as a voluntary reporting mechanism for corporate companies in Europe and is therefore considered influential in the voluntary action space. There is merit today in developing systems to comply with PEF because of its expected global influence in voluntary markets, and as a means of engaging with and improving the system.

The first phase of EUDR (June 2023–June 2025) excludes land currently used for agricultural purposes, including rearing livestock. This was a key finding of the study, indicating immediate conflict with grazing land management is not part of the regulation. However, there is likely to be a significant impact in compliance burden through the due diligence obligations, and future risk as the scheme is adapted over time and potentially broadens its remit.

The study concluded that industry has approximately 1–2 years before these changes in regulation parameters, the direct impact shifts to industry preparation for compliance requirements and the development of data systems to allow accurate and seamless reporting to demonstrate environmental performance credentials. These efforts can concurrently prepare industry to meet disclosure expectations from commercial clients and consumers and will be a sensible strategy to pursue.

There are two aspects of readiness in responding to changing disclosure regulations:

- I. the ability to assess, measure, and calculate environmental impacts based on scientifically robust methods, and
- II. the ability to effectively store and convey those performance data to trade partners.

The Meat Messaging platform is the most widely used system for Australian red meat exports to convey information for compliance and support traceability validation of products. It can attach consignment information at the trade unit level, usually to the carton. Designed for efficient destination port approvals and the reduction of import rejection, it is used for all export destinations. This project found that the Meat Messaging platform is sufficient to convey this information.

The study also identified gaps in the industries' readiness for meeting requirements:

- III. For CBAM, background datasets that support scope 3 assessment in red meat production are scarce and will most likely be required, though exact methods remain unclear.
- IV. For PEF, there is no current capability to report through the red meat supply chain, and there are technical problems with implementing the science behind this system in Australia: in effect, European systems are being imposed on an Australian context, and for regionally specific environmental impacts, this is not appropriate and leads to incorrect reporting of impacts.
- V. For EUDR, the due diligence and reporting requirements are challenging it is not clear how meat companies would verify zero deforestation claims with the level of traceability in the industry and the available satellite imagery systems to analyse the 10% canopy cover and 5m height forest definition (Appendix 5 in main report).

Our investigation revealed several strategies for mitigating the impacts of these market-imposed regulations. A common method or tool can be developed for meat processors to facilitate scope 3 emissions reporting and reporting of other environmental impacts from their suppliers. Next, the reporting system must be harmonised, and flexible to deliver results suited to each international framework. Collaborative efforts along the supply chain and across various industry players are essential to ensure that costs and expectations around emissions reductions and removals are manageable for each stakeholder. Political engagement in Europe is necessary to allow industry to constructively critique these regulatory initiatives. Ensuring that the required resources and funding are allocated to industry to address these compliance requirements is crucial.

While market-imposed environmental disclosures are often perceived as a threat, there could also be 'first mover' advantages that will improve Australia's competitiveness and cement its ongoing reputation for being a market leader in traceability and responsibility in production. AMPC has taken an important step in leading the industry towards a course of preparatory action. It will benefit from continuous partnerships with other industry peak bodies to assist the Australian red meat industry in maintaining its competitive advantage in the global trade arena by developing the systems to respond proactively to new market requirements.

Mitigating risks and harnessing opportunities can largely be achieved through the same process. This report recommends the following further steps and initiatives:

1. The fast-moving nature of this area means that information in this report will be dated quickly. We recommend extending this project to maintain a watching brief, inform industry via communications and enable establishment of a working group to meet bi-annually between interested industry members to keep abreast of new requirements and opportunities and to identify collaboration opportunities.

2. Our review of EU legislation regarding deforestation concluded that agricultural land was exempt, resulting in relatively low short-term impacts. This conclusion should be reviewed frequently to check for emerging risks from this issue.
3. Develop methods and mechanisms for reporting scope 3 impacts in a standardised and compliant way will deliver value by enabling consistency across the sector. This should be pursued as an 'industry good' activity.
4. Harmonising key reporting requirements and exploring 'whole of industry' approaches to compliance to overcome producer/processor hurdles is recommended. This may best be done using a pilot-based approach. Standardised requirements and clarity across the sector will be key to having a harmonised and transferrable approach between businesses, in much the same way as standard carcass specifications ensure fairness and uniformity in the trade between processors and producers.
5. Our review concluded that the Meat Messaging system could carry further specification data around environmental disclosures. Depending on the verification level needed in third-party markets, this may vary from a 'certification' verified in Australia to providing some primary data with actual shipments of beef. There is no imminent need for verification with beef shipments from regulatory systems. However, trialling this system for customer-led trade would provide interesting insights and help the industry be responsive to regulatory needs, should they emerge.

Benefit for Industry

This project has provided key insight into the risk and timeline of implementation for new disclosure requirements. While focused on Europe, it gives insight into the direction this topic is taking in global trade.

Immediate risks were shown to be predominantly from increased compliance burden, with the EUDR being a key concern. Industry may act collectively, rather than company by company, to reduce costs of compliance and reduce longer term confusion in supply chain reporting, which would be a major benefit from collective action.

There was one potential area of opportunity in this space through leveraging Australia's generally good production standards and high capabilities in compliance and reporting to deliver products with better environmental credentials than competitor nations. Through this, Australian red meat may become more attractive to high value markets such as the EU.

Useful resources

See main report.