ABDC
AUSTRALIAN BUSINESS DEANS COUNCIL

22 June 2023
Online submission

Dear Senate Standing Committees on Environment and Communications,

Re: Greenwashing Inquiry

The Australian Business Deans Council (ABDC) welcomes the Senate's inquiry into greenwashing and the opportunity to comment on the matters identified in the terms of reference.

Greenwashing is of increasing concern for businesses and consumers because of its market distortion and inefficiency effects. Consumers lose out over time as they pay extra for goods that they later discover are not truly green products. Exposure to false and misleading information undermines the credentials of green products across the market.

Given the efficiency and equity implications of greenwashing, there is a role for government to step in to improve information flows and facilitate the development of science-based targets across the business sector. This will benefit consumers with clear, comparable information about the environmental credentials of products and services; and businesses who have invested in innovations to reduce their carbon footprint.

Australian business researchers have identified the occurrence and impacts of greenwashing across many industries including aviation, food, clothing, funds management, and through supply chains. Researchers also play a key role in guiding companies to decarbonise (Wade and Rekker, 2020). In this submission we provide a non-exhaustive overview of recent research findings as they relate to the inquiry's terms of reference.

The role of business education and research in the transition to net zero

Business schools can play a vital role through curriculum, research, and engagement, to shape the new governance and risk management practices needed to transition the global economy to net zero.

Through responsible management education, business schools can support the development of conservation values and positive attitudes toward corporate social responsibility (CSR) shown in behavioural intentions to work for employers with CSR values (Haski-Leventhal et al, 2022).

Establishing effective education programs that build sustainability capabilities for business professionals equips graduates to lead sustainability transitions and avoid practices from this greenwashing arises (Benn, et al, 2021; Linnenluecke and Griffiths, 2015).

Last year members of the ABDC endorsed the [Declaration on Climate Action](), committing the Council to cooperate in:

- Developing business school curriculum to embed carbon literacy in the Australian context, including working across disciplines to deepen students' understanding of the science of climate change.
- Establishing education standards and identifying the threshold attributes of graduates to contribute positively to climate action.
- Promoting programs of research and centres of excellence with a focus on business responses to climate change, including management and governance practices for a low carbon economy, and financing models for mitigation and adaptation strategies.
- Embedding a strategic partnership with the Australia-New Zealand Chapter of Principles of Responsible Management Education (PRME) to provide a forum for sharing of best practice and coordinating action.

To co-ordinate actions among business schools, the ABDC has appointed Assoc. Prof. Melissa Edwards from UTS Business School as the inaugural Climate Action Fellow.

Through regular consultative forums led by the Climate Action Fellow, including support from a reference group of industry stakeholders, the ABDC has set a roadmap to coordinate action on climate change nationally. The roadmap outlines the ABDC's role to cooperate on policy development in managing the transition to net zero. The ABDC welcomes an opportunity to continue dialogue among members to address greenwashing.

Limitations of existing consumer protection laws and corporate reporting frameworks

While the ACCC's sweep of misleading claims provides a much-needed overview of the prevalence of greenwashing claims in the Australian consumer context, and recent ASIC enforcement actions are welcome, the tools for regulatory action on greenwashing are limited to pre-existing, general prohibitions on false or misleading statements, misleading and deceptive conduct, and disclosure obligations in the Corporations Act 2001 and Australian Securities and Investments Commission Act 2001.

The success of existing regulatory tools depends on whether the threat of public disclosure of greenwashing is enough to stop deceptive action (Feinstein 2013; Sun and Zhang 2019). Enforcement actions by ASIC and the ACCC are pursued in the most egregious cases, leaving many false, misleading and deceptive claims by companies unchallenged. Given the prevalence of greenwashing, Australia needs a new system of consistently applied ratings for products and services to improve information flows. A rating system should rely on lifecycle analysis and carbon disclosure methods, which at this stage are voluntary for companies.

In line with recent UN recommendations, the inquiry should investigate the introduction of specific regulation to address false and misleading net zero and environmental pledges. Support for such regulation is found in a study of voluntary corporate climate disclosures by Australian companies showing greenwashing among companies with poor environmental performance. The study authors suggest that further regulation, including mandatory disclosures and punitive actions, is necessary (Wedari et al, 2021).

Emerging research on equity funds suggests there while there is growth in sustainable-labelled products in Australasia, there is evidence of greenwashing in the region, especially in relation to stated and actual carbon performance (Mclean et al., 2022). In the funds management sector, voluntary pledges and validations are important; however, as Humphrey and Li (2021) show the loss of a validation, such as delisting from the UN Principles for Responsible Investment (UNPRI), can also be a signal of greenwashing.

Exposure to greenwashing erodes trust and hinders sustainable consumption

The ACCC found more than half of businesses screened made concerning claims about their environmental credentials on the internet with vague, unqualified, absolute, and exaggerated claims (ACCC, 2023). Further, they identified businesses not providing evidence for environmental claims, setting goals without clearly explaining the plans to achieve them or confusingly using third-party certifications and labels (ibid). Misleading and unsubstantiated claims can disadvantage businesses that make genuine claims, undermining the competitive advantage of those companies who genuinely invest in environmental innovations (Wedari et. al., 2023).

Greenwashing also harms consumers with exposure to false or misleading environmental or CSR claims shown to raise consumer scepticism making it less likely that consumers will respond favourably to CSR initiatives over time (Ramasamy et al, 2020). Increasing consumer scepticism has the potential to hinder the transition to more sustainable consumption (European Commission, 2023).

A study on aviation’s communication of voluntary carbon offsets, indicates consumers face complex messages with a mix of trustworthy and misleading claims on what is communicated (type of claim) and how (nature of the claim) (Guix et al., 2022). The study found varying and complex patterns. For example, some sentences can be misleading for different claims and in different ways, while others can be misleading in one claim and trustworthy in another claim. These patterns significantly increase the difficulty for consumers to make informed decisions about the environmental attributes of products.

Greenwashing undermines product labelling as an informational tool to assist consumers in making more sustainable consumption choices by misinforming consumers. The number of labels and certifications also cause confusion among consumers, an issue identified in the

ACCC report. While consumer awareness guidance is available[1] the vast array of labels making various environmental and sustainability claims is counterproductive to information symmetry. When meaningful and accurate, labelling is shown to be an effective tool for shifting consumer food choices to lower emission products (Camilleri et al, 2019).

While different types of claims need different levels of substantiation, there are some basic practical recommendations to reduce greenwashing by providing accurate and recognised scientific evidence, including relevant independent facts, being clear on the scope of the claim, providing a balanced view of the benefits and any potential negative impacts, demonstrating results by providing evidence, using simple language and avoiding jargon, and providing additional relevant information. When making comparative claims implying better environmental performance or product characteristics, those should be substantiated. Using credible and reliable certification and verification (labels) in a consistent way, can also enhance credibility of messages.

Recommendation one: Greenwashing regulation should focus on company performance and have scientific underpinnings

Regulation to counter greenwashing should support businesses to develop credible corporate transition plans with reasonable targets that are science-based and incorporating robust life cycle analysis to avoid the communication of vague or selective claims.

Where companies are subject to stakeholder pressures, ‘private climate regulation — operating in conjunction with legal obligations to identify, disclose and manage climate-related financial risk’ caused general shifts towards adoption of more ambitious science-based targets (Foerster and Spencer, 2023). Such private climate regulation is largely facilitated by large non-state actors, who coalesce around common Paris-aligned science-based goals. Further, Rekker, Humphrey and O’Brien (2019) find that environmental ratings must rate companies relative to their ability to meet global warming targets rather than as relative between companies in a particular sector. Rekker et al (2022) have defined, from a science-based perspective, what compliance with the Paris Agreement target means.

Recommendation two: Greenwashing regulation should be globally relevant

To maintain global competitiveness, any greenwashing regulation should be considered in reference to the global process for consolidating sustainability accounting and reporting standards through the International Sustainability Standards Board (ISSB) and the issuance of new reporting guidance from the International Finance Reporting Standards (IRFS) and the Australian Treasury process that considered amendments to the ASIC act to include processes for the AASB to set and administer sustainability standards. In recommendation five we provide examples of guidance on credible transition plans and reporting.

[1] See, for example, https://www.ecolabelindex.com/

In developing regulations and guidance governments should consider relevant international research that analyses the effectiveness of legislative frameworks and comprehensive taxonomies. This research observes that selective disclosures can obfuscate company performance (Marquis, Toffel and Zhou, 2016).

Recommendation three: Professional associations and peak bodies have a role in capacity building

Ensuring accurate and reliable scientific based decision making relies on information translation between typically unrelated disciplines and areas of professional practices.

Interdisciplinary research and engagement increasingly are occurring between business disciplines and climate and sustainability sciences, alongside professional associations.

Through the ABDC as a peak association, business schools are working together to coordinate across disciplines and with professional associations to develop and provide quality education programs and certifications to lift capabilities that over time could ensure greenwashing is avoided. This includes guidance on setting science-based and realistic parameters to goals, commitments, and targets, and to upskill business professionals across occupations so they can:

- improve the governance and management of sustainability performance, measurement, reporting and disclosure systems,
- design and implement strategic decarbonisation, environmental innovations, and credible corporate transition plans,
- implement and assure effective sustainability and carbon management, performance, and control systems, and
- ensure the alignment of advertising and marketing messages.

Recommendation four: Consider greenwashing across the financial sector and professional requirements to support reporting

Greenwashing is also an issue in the financial and investment management sectors, with climate-related risks, disclosure requirements and the emergence of sustainable finance and investment increasing the demand for reliable sustainability and climate scientific information (Fiedler et al, 2021). To ‘meet the needs of the financial sector, regulators and business, climate projections need to be developed, undertaken and provided at the same level of professionalism as weather services’ (ibid: 92).

Carbon accounting has moved from an emerging field (Hartmann, et al, 2013), to having a demonstrated business case (Simnett and Huggins, 2015). The consolidation of reporting and accounting frameworks under the IRFS, and ASX recommendations that listed companies disclose the processes they use to ensure the integrity of reports (Tan et al.,

2022) is likely to increase demand for sustainability and carbon accounting and management professionals.

Recommendation five: Consider legislative and policy approaches in other jurisdictions

The ABDC notes that several jurisdictions have introduced legislation specifically to address false and exaggerated environmental claims. Given the harms associated with greenwashing on consumers and commercial practice, and the retrospectivity of currently available sanctions, the ABDC encourages the inquiry to consider regulating the use of terms associated with greenwashing and misleading environmental claims.

- Amendments to the French Code of Commerce that regulate false or misleading environmental claims on products or services including available criminal sanctions. Carbon neutral and similar claims are now prohibited under Article D. 229-106 of the French Environmental Code unless advertisers report on greenhouse gas emissions in accordance with ISO 14067.
- The Green Claims Directive (2023/0085/COD), adopted by the European Commission in March 2023, requires companies to substantiate environmental claims and labels. The Directive requires that companies have green claims independently verified and sets new rules of governance to support the transparency and reliability of environmental labelling schemes.
- The US Federal Trade Commission currently is reviewing their guidelines for the use of environmental marketing claims especially in relation to carbon offsets and climate change, including the use of the terms recyclable and recycled content and providing additional guidance on claims such as compostable, degradable, ozone-friendly, organic, and sustainable, as well as those regarding energy use and energy efficiency.

Regulators have also sought to address misleading claims in investment products:

- New rules are proposed by the UK Financial Conduct Authority to restrict the use of terms such as ESG, green and/or sustainable in investment products.
- The EU has a suite of regulations designed to ensure that investors and stakeholders have access to information about investment risks related to climate change and sustainability — EU Taxonomy Regulation ((EU) 2020/852), the EU Sustainable Finance Disclosure Regulation ((EU) 2019/2088), and the Corporate Sustainability Reporting Directive ((EU) 2022/2464).
- The SEC is also considering a climate disclosure rule that would apply to all publicly traded companies in the US, with the aim of standardising disclosures about greenhouse gas emissions and climate-related risks.

To assist businesses in developing meaningful, science-based targets for net zero transition, the development of self-assessment and disclosure tools should also be considered. Examples of these include:

- OECD guidance on credible transition plans https://www.oecd-ilibrary.org/sites/f092a7f7-en/index.html?itemId=/content/component/f092a7f7-en
- UK Competition and Markets Authority Green Claims Code — a tool for companies to self-assess whether green claims are really green
- UK Financial Stability Board: Taskforce on Climate-related Financial Disclosures — framework and principles for effective disclosure

Conclusion: Regulation will have some effect, but lifting professional capabilities is essential

Greenwashing typically is known to occur because of limited disclosures, distortions due to lack of clear information, multiplicity in acceptable labels, benchmarks, standards and ESG reporting frameworks, weak governance arrangements, and a lack of disincentives for inaction due to ineffective regulation. Establishing clear regulation can have some effect in abating the problem of greenwashing.

Regulation and guidance alone are not sufficient, however. Organisation and management researchers have identified other forms of greenwashing which arises from both lack of internal organisational coordination, or more intentional forms of deceptive manipulation (Siano, et al. 2017). Researchers have identified how climate and sustainability goals and targets are often translated into 'business as usual' routines where greenwashing more likely occurs (Wright and Nyberg, 2017) and corporate practices associated with 'woke capitalism' where ESG signalling, unmatched by credible actions, could obfuscate real political action on climate (Rhodes, 2021).

Transparency around credible and well-informed corporate transition plans is an essential part of combatting greenwashing. Added to this is the need to lift the capabilities of business professionals to be able to both identify and either rectify or prevent instances of greenwashing.

Further inquiries

The ABDC welcomes the opportunity to engage with the Senate Standing Committee as the inquiry continues.

The ABDC Climate Action Fellow, Assoc. Prof. Melissa Edwards, is the best contact for this purpose: Melissa.Edwards@uts.edu.au, or alternatively, ABDC Executive Officer, Caroline Falshaw: office@abdc.edu.au

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About the ABDC

The ABDC is the collective voice of Australian university business schools, which educate 16% of all domestic students and 39% of the nation's international students.

Our 38 members teach and research the areas vital to the success of the businesses that underpin the economy. The ABDC's aim is to make business schools even better.

As their peak body, ABDC's role is to ensure that those with political, social, cultural and economic influence appreciate and support how business education contributes to Australia's future.

AUSTRALIAN BUSINESS DEANS COUNCIL

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