Regulating corporate green claims and greenwashing

Policy recommendations

Summary of recommendations

- Governments must ban corporations from making “net zero” and “carbon neutrality” claims.
- Companies must report absolute emission reductions separately from any emission reductions financed outside of their value chain, rather than one single aggregate number.
- Companies must always provide consumers and investors with the full picture. They must set targets that cover all of the emissions within their value chain, i.e. scopes 1-3; express emission reductions in both absolute terms and as a share of total emissions; and provide details on the reference point used to calculate reductions, i.e. the base-year.
- Companies should not balance fossil fuel emissions with carbon stored in non-permanent carbon sinks such as forests or soil.

1 - Setting the scene

In light of the increasing reliance of advertising campaigns on attributes highlighting the climate and environmental benefits of products, services and companies, as well as the recent boom in carbon market activity, governments must urgently pass regulations to verify credible green claims and remove false and misleading ones based on clear and transparent criteria. In doing so, it is important to distinguish two dimensions: 1) how a company calculates and reports its own emissions, and 2) how a company finances climate action outside of its value chain.

1.1 Abusive distortion of reality in corporate advertising

In an assessment of 25 major global corporation's climate claims, produced by NewClimate Institute in collaboration with Carbon Market Watch, it was found that nearly all of them rely on some form of **loophole or trick to significantly exaggerate the ambition of their climate targets and actions**. This is done by selecting advantageous base years against which emission reductions are calculated, excluding a large share of emissions by omitting specific scopes of an activity, blurring the frontier between absolute and intensity-based reduction targets, failing to disclose the use of carbon offsets, etc.

In addition, companies use a range of words and expressions which are all designed to convey **a sense of action and achievement while masking inaction and underachievement. They also fail to provide consumers**, investors and other stakeholders with sufficient information to enable them to make informed choices. These include such claims as "carbon neutral", "net-zero", "net-zero carbon", "carbon-free", "climate positive" and "zero/net-zero". The average consumer is not equipped to understand these claims and how they differ from each other, let alone verify them.

In addition, these terms are ambiguous and elastic, providing corporations with enormous leeway to stretch the credibility of their assertions beyond breaking point and making it difficult for independent parties or regulatory authorities to assess the validity of these claims. The **near-absence of regulation on this has led to obviously exaggerated claims proliferating**, such as companies claiming to be selling and buying "carbon-neutral fossil fuels", with no recourse to hold them to account.

1.2 Excessive reliance on low-quality carbon credits

The quality of carbon credits used by most companies to meet their climate targets continues to be, on average, very poor. In 2021, the offset project type which was issued the most carbon credits worldwide was REDD+ projects,[1] which aim to lower deforestation in developing countries. These credits lack quality as the real impact of these projects is incredibly difficult to estimate accurately, and the storage of carbon in trees is only temporary, while the CO_2 emitted as a result of the combustion of fossil fuels can remain in the atmosphere for centuries.

In addition, with the establishment of carbon markets under Article 6 of the Paris Agreement, a new risk of double counting of emission reductions has arisen. If both the company paying for an emission reduction and the country where this reduction takes place count the reduction towards their climate targets, then **a single tonne of CO_2 reduced is being claimed by two entities. This raises significant issues when it comes to accounting and incentives**. For example, the country selling, and still counting, an emission reduction, might decide to postpone or cancel other climate policies as a result of having received voluntary finance. In this case, the credit purchased has displaced other action, instead of adding to it. [2]

Carbon Market Watch

1 See Trove Intelligence data (2022)

2 For more details on this, see our policy briefing "Beyond carbon offsetting"

2 - What the EU (and other governments) must do

2.1 Regulating corporate reporting of climate impact

Strict criteria should be set to regulate whether and under which conditions specific climate-related claims can be made. In doing this, corporations, products and services with undeniably harmful effects on the climate should not be allowed to make carbon-neutrality or similar claims in their advertising and other communications. This includes, but is not limited to, fossil fuel exploration, extraction, and sale.

The EU, and its member states, should improve requirements related to false and misleading advertising and marketing. This could be done through the **adoption of a new regulation to ban deceptive climate-related claims**, or through **modifications to the Directive on Unfair Commercial Practices.**

In doing so, Carbon Market Watch recommends the following elements:

- Companies must not be allowed to communicate their climate impact on a purely net basis. When companies finance climate mitigation actions, and wish to report this in their outreach and marketing efforts, they **must report both the negative and positive impacts distinctly, as well as distinguish between actions implemented inside and outside their value chain.**

  Example: *a company cannot label a product as having resulted in "net zero" emissions, or as being "carbon neutral", but rather must communicate how many tonnes of CO_2e have been emitted for the manufacturing of the product and, separately, any contributions which the company has provided to climate action outside of its value chain.*

- When companies choose to advertise on the basis of their progress in reducing emissions within their value chain, they must communicate this clearly. Companies should always **report emission reductions in both absolute and relative terms**. This should include a specific, visible and prominent notice of **what the baseline emissions level is**, and why this level was selected. The **target should also be set as a share of full value chain emissions, including Scopes 1,2 and 3** as determined under the GHG Protocol guidelines. This means companies should not be allowed to set targets that only cover scope 1 and/or 2 emissions, but which exclude scope 3.

  Example: *A company must not be able to publicly state such messages as:* "Our operations have no net impact on the climate"*. Instead, their most prominent claim should clearly reference the coverage of the target and the relative effort it represents, such as* "We have reduced our absolute emission by 1ktCO_2e in 2022, which is a reduction of 10% compared to 2010." *In addition, placed visibly and nearby the main headline claim, further details should be included, such as* "Our reference year emissions (2010) were at 10kt CO_2e. This base year was our peak year for emissions."

Carbon Market Watch

2.2 Prohibit the use of low quality carbon credits

“Net zero” and “carbon neutral” claims and advertisements mask a large degree of heterogeneity between companies, and do not enable consumers to make informed choices. For example, “net zero” can describe a firm that has reduced its emissions by 90% and offset the remaining 10% or a firm that has only reduced its emissions by 10% and offset the remaining 90%. But these two divergent cases are not equivalent.

It is therefore, in the vast majority of cases, inappropriate for companies to make such claims, because often they have not actually reached a steady state where it is truly impossible for them to further reduce their own emissions.

However, should companies continue to make such claims, and notwithstanding our recommendation above on the importance to separately report absolute reductions from any external reductions, it is crucial to avoid double counting of emission reductions. This means that any emission reduction used by a company to claim to have compensated its own emissions, should not be used by any other entity, e.g. a country to reach its own climate targets. This requires that, if companies rely on carbon credits to make claims related to the compensation of their emissions, they should only use carbon credits which have been subject to corresponding adjustments through the system established under Article 6 of the Paris Agreement. This means that the country selling the emission reduction agrees not to count that reduction towards its own target.

As mentioned above, this is only a second-best solution. We strongly encourage the adoption of regulations which require companies to report their own emissions separately from any reductions they finance outside of their value chain, including through the purchase of carbon credits. This means banning “carbon neutrality” claims.

Finally, in order to prevent companies from making false or misleading claims, it is also crucial that the EU avoids putting in place systems that actively encourage companies to make such claims. This is what could result from the EU’s initiative on sustainable carbon cycles, in which the European Commission is taking clear steps towards encouraging private sector actors to compensate fossil fuel emissions with non-permanent, biological carbon storage. CMW expressed serious concerns regarding this initiative already in a previous letter to the Commission.

Contact

Gilles Dufrasne

Gilles.Dufrasne@carbonmarketwatch.org

Published 7 February 2022

Carbon Market Watch