Call out greenwashing, crack down on it

When businesses declare themselves carbon neutral, they must prove it

Kelvin Law

News broke recently that Delta Air Lines is facing a class-action lawsuit over its advertising claims of being carbon neutral. It’s only the latest company to face a backlash for alleged greenwashing claims. Britain’s advertising watchdog has been keeping a sharp eye on companies making green claims. In 2020, it ordered budget carrier Ryanair to stop advertising itself as a “low CO2 emissions airline” as there wasn’t enough evidence to back the claim. In the past few months, the same authority has also directed Etihad Airways and Lufthansa to remove claims such as “sustainable aviation” and “protecting its future” in their ads because consumers may misunderstand these claims. So, what exactly is greenwashing? Simply put, greenwashing is no different from false advertising. It creates the impression of a company that is environmentally friendly when that may not really be the case. Companies that greenwash often exaggerate the environmental benefits of their services or products. A famous example is Volkswagen’s “disguised” scandal, which broke in 2015, where the auto giant was fined over €10 billion (US$44 billion) for installing software in cars to manipulate emission test results for years. Firms resort to greenwashing because it’s good for business. Research studies have consistently shown that environmentally conscious consumers are willing to pay more for products with brands that support green services and reduce their carbon footprint. Greenwashers play on these emotions by making unsustainable claims such as “carbon neutral” and “net zero”. When a firm boasts of “carbon neutrality”, does that mean it has lower carbon emissions? The answer is not entirely clear. “Carbon neutral” is a chameleon phrase that changes its meaning depending on the context. Carbon neutrality might mean “We’ve eradicated our carbon emissions entirely,” or “We’ve neutralised our carbon dioxide emissions, but we’ve also increased our emissions of other greenhouse gases such as carbon dioxide.” It could also mean “We’ve paid someone else to completely eliminate our carbon emissions,” a controversial practice known as “carbon offset” that has come under the microscope. “The idea behind carbon offset is simple, and the intention, commendable. Picture yourself as a heavy smoker who smokes a pack a day. You know that smoking is terrible for your health and you tried to quit to no avail. One day, a lightbulb moment kicks in: Why not pay a non-smoker on the brink of getting into the habit of smoking a pack a day to refrain from taking the first puff?” After finding and paying that person, you return to your old habit of puffing away on your daily pack, while the other person breathes in clean air, thanks to your generous payment. In your mind, as far as the planet is concerned, you have offset the impact of your bad habit by changing someone else’s behaviour. Businesses worldwide are increasingly leaning on carbon offset projects as the primary means to balance out their emissions. By purchasing equivalent amounts of carbon offsets from carbon offset projects worldwide, these businesses can proudly declare themselves “carbon neutral,” or at least on the path towards it. Despite the good intentions, the efficacy of carbon offsets remains highly controversial. Recent investigative journalism has uncovered that a staggering 80 to 90 per cent of carbon offset projects are worthless, and that some 15 per cent of offset projects used by the European Union fail to reduce carbon emissions. Even more troubling is the emergence of the term “phantom credits” – carbon offsets that do not represent genuine carbon reductions. It is clear that the benefits of some carbon offset projects have been greatly exaggerated.

THE OFFSIDE CONTROVERSY BEHIND CARBON OFFSETS

Businesses worldwide are increasingly leaning on carbon offset projects as the primary means to balance out their emissions. By purchasing equivalent amounts of carbon offsets from carbon offset projects worldwide, these businesses can proudly declare themselves “carbon neutral,” or at least on the path towards it. Despite the good intentions, the efficacy of carbon offsets remains highly controversial. Recent investigative journalism has uncovered that a staggering 80 to 90 per cent of carbon offset projects are worthless, and that some 15 per cent of offset projects used by the European Union fail to reduce carbon emissions. Even more troubling is the emergence of the term “phantom credits” – carbon offsets that do not represent genuine carbon reductions. It is clear that the benefits of some carbon-offset projects have been greatly exaggerated. The point is that greenwashing can win the business of environmentally conscious consumers who get misled by a company’s claims. Such consumers fall for catchy terms like “carbon neutral” and “net zero” because they want to save the planet, while some businesses exploit the ambiguities and lack of standard definitions for these buzzwords. This has resulted in some companies using greenwashing as a marketing gimmick based on the perception that the extra costs help the environment. When confronted with suspicion over carbon offsets, defenders of the practice push back by saying that doing something imperfect is better than doing nothing at all. At best, this view borders on breeding complacency. It’s like someone trying to lose weight deciding to “combo” a 15-inch extra-large pepperoni pizza with a small box of salad. The salad may be healthy, but it is definitely not going to erase the calories onslaught of the pizza. Worse still, such a defence can be deceitful, especially when compared to other green claims. The way Gucci has stopped asserting that it is carbon neutral. At the very least, businesses must be more transparent about their environmental claims and the composition of their carbon offset portfolios. Are they paying for false carbon dioxide prevention, renewable energy offsets, or land use offsets? Some businesses are reluctant to open their emissions books for fear of inviting comparison. But if opening the emissions books invites comparison and competition to save the world, isn’t this the race we ought to welcome?

As for consumers, if they pay a green premium, they have the right to know where their money goes. Otherwise, they should reconsider paying green premiums.

The authorities, too, should crack down on greenwashing. Perhaps, they should call out pharmaceutical companies that are not allowed to make unfounded claims about their products’ health benefits. Pharmaceutical companies are sometimes corporate sustainability and financial fraud.

Kelvin Law is associate professor of accounting at Nanyang Technological University, Nanyang Business School in Singapore.