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Submission to the Australian Association of National Advertisers (AANA) regarding Environmental Claims Code

Submitted via email to: aanasubmissions@aana.com.au

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On behalf of the Australian Centre for Corporate Responsibility

Introduction

The Australasian Centre for Corporate Responsibility (ACCR) welcomes the review of environmental claims code, as the code and process for assessing advertising has, for the most part, not successfully identified or prevented ongoing misleading environmental claims in advertising in Australia.

ACCR is a not-for-profit, philanthropically-funded research organisation, based in Australia. ACCR monitors the environmental, social and governance practices and performance of Australian-listed and international companies. We undertake research and highlight emerging areas of business risk through private and public engagement.

Companies globally and in Australia are increasingly promoting their 'green' credentials, as many consumers are becoming increasingly concerned about sustainability and climate claims, and the potential for ''greenwashing'.¹ At the same time, there is increasing investor and regulatory scrutiny around corporate claims relating to climate change, emissions reduction, and the environment. For example, the Australian Securities & Investments Commission (ASIC) has adopted an increased focus on greenwashing, which it considers can 'erode investor confidence in the market for sustainability-related products', and which 'poses a threat to a fair and efficient financial system'.² In January 2023, listed energy company Black Mountain Energy Limited (BME) was issued with three infringement notices and a fine, relating to its claims that two of its gas projects were 'net zero emissions'.³

ACCR has been directly engaged in the process of seeking accountability on corporate climate claims in Australia. On 25 August 2021, ACCR filed proceedings in the Federal Court of Australia in which it alleged that gas company Santos engaged in "greenwashing" in its 2020 Annual Report by embellishing its environmental credentials in a way that is misleading or deceptive or likely to mislead or deceive. Santos made statements that the natural gas it produces is a "clean fuel" and provides "clean energy", and ACCR claims these statements convey that the extraction of fossil gas, and the end use of that gas, does not have a material adverse effect on the environment. The court case is now expanded, and ongoing.⁴

ACCR is of the view that when it comes to the claims made in commercial advertising in Australia, the AANA and the Environmental Claims Code have a crucial role to play, and that this review, and an openness to genuine reform is welcomed.

Overall, we are concerned that the current structure is insufficient for guarding against misleading and/or deceptive advertising, and could be improved. In particular, some important changes to the Code's definitions and scope, to the Practice Notes, and increased access by the AANA to independent expertise to help test claims made, would improve the system.

 $^{^{1}}$ EY, 2021, 'Greater Expectations: Why consumers won't stand for corporate greenwashing',

https://www.ey.com/en_au/climate-change-sustainability-services/greater-expectations-why-consumers-won-t-stand-for-corporate-gree nwashing

 $^{^2}$ ASIC, 2022, 'How to avoid greenwashing when offering or promoting sustainability-related products',

https://asic.gov.au/regulatory-resources/financial-services/how-to-avoid-greenwashing-when-offering-or-promoting-sustainability-relate d-products/

ASIC, 2023, '23-001MR ASIC issues infringement notices to energy company for greenwashing',

https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-001mr-asic-issues-infringement-notices-to-energy-company-for-greenwashing/

⁴ ACCR, 2022, 'Australasian Centre for Corporate Responsibility expands landmark Federal Court case against Santos',

https://www.accr.org.au/news/australasian-centre-for-corporate-responsibility-expands-landmark-federal-court-case-against-santos/

Our key recommendations are:

- The current definition of 'environmental claims' should be expanded, capturing claims made about how products are manufactured, and to capture claims relating to a particular industry or sector
- The Practice Notes should be updated to reflect important legal principles regarding misleading/deceptive conduct, under Australian Consumer Law (ACL)
- A product/company's overall environmental footprint should be taken into account when assessing the accuracy of claims made
- The Practice Notes should include guidance regarding the threshold for making an honest claim to 'net zero'
- Where claims of carbon emission reductions are made in advertising, advertisers should be required to specify the extent to which this is achieved by use of carbon offsetting. Further, companies should be compelled to publish details of any offsets which they are using, noting any applicable scheme as well as the costs of the offsets.
- Ad Standards should be able to carry out its own scientific research and analysis when determining environmental claims, including through consulting with relevant, independent scientific experts (i.e. climate scientists).

In scenarios where complaints are made in relation to environmental claims, it would be beneficial that once an advertisers' response is received by AANA, that it is made public prior to the final decision of the panel. This could include a short time period for which public comment is welcomed on the matter, that the panel could also consider as part of its review. The AANA should also outline a clear process for complainants to provide additional evidence and information, in the event that an initial complaint is not upheld. This might take the form of a review mechanism, or a secondary complaint process. It should also provide a mechanism for a public right of reply to the advertisers' response letter. Finally, we believe that the AANA should give particular time, attention and third party review opportunities when the advertising is promoting a fossil fuel product and/or that fossil fuel based product as carbon neutral, renewable, cleaner or zero emissions.

Response

Discussion Questions	ACCR response
1. Are any changes required to the definitions in the Environmental Claims Code? 'Environmental Claim means any express or implied representation that an aspect of a product or service as a whole, or a component or packaging of, or a quality relating to, a product or service, interacts with or influences (or has the capacity to interact with or influence) the Environment.'	The current definition of 'environmental claims' is inadequate. It should be expanded to capture claims made about how products are manufactured, and to capture claims relating to a particular industry or sector (for e.g. the mining industry). This will help to ensure that specific claims about positive activities do not mislead audiences about the broader impacts of a company or industry (relatedly: see Q17 on omissions, below). For instance, the Minerals Council of Australia advertisement referenced in the discussion paper arguably put forth claims about the environmental and sustainability credentials of the entire mining industry, and the AANA should be able to evaluate such claims.
2. Are any changes required to section 1 or the Practice Notes for section 1? If so, why are changes required and what specific changes are required?	The Practice Notes should be updated to reflect important legal principles regarding misleading/deceptive conduct, under Australian Consumer Law (ACL). Greater consideration should be given to: • The 'dominant message' which an advertisement conveys to consumers, as well as the total effect of an advertisement created by its headline statements. The Practice Notes should include clear guidance regarding when headline statements will be misleading. • The extent to which any qualifications or disclaimers, which are included in an advertisement, negate the risk of misleading or deceptive advertising. This evaluation should include a consideration of how accessible a disclaimer is made to a consumer, in relation to the claim it is intended to qualify.
3. What changes to the overall Code or Practice Notes could be made to assist in the interpretation and compliance with the Code?	The Practice Notes should incorporate and reflect legal principles regarding misleading or deceptive conduct. The AANA should also consider incorporating and referencing the ACCC Guide on 'Green marketing and the Australian Consumer Law' ⁵ in the Practice Notes. They should also include guidance regarding the threshold for making an honest claim to 'net zero'. Recently, the UN Secretary-General ordered that an Expert Group be formed to consider the issue of net-zero emissions commitments made by non-state entities. That group opened a public consultation process, in part to develop recommendations on credibility criteria used to assess the stated objectives, measurement and reporting of net zero pledges by non-state actors. As part of that consultation, ACCR submitted that 'net zero' targets which rely on offsets are inadequate

⁵ ACCC, 2011, 'Green Marketing and the Australian Consumer Law', https://www.accc.gov.au/system/files/Green%20marketing%20and%20the%20ACL.pdf

to the task of keeping the climate safe. The world needs a credible, rigorous method for setting a science-based pathway to 1.5°C alignment. Such a method would, necessarily, preclude fossil fuel expansion, since it is inconsistent with this goal'.

ACCR also recommends that providing relevant subject matter experts to the panel including climate experts would also be important to ensure interpretation of the Code and assessment of complaints/claims is conducted in line with scientific consensus.

4. Where broad, general claims of environmental benefit (e.g. sustainable, green) are made, should the product or company's overall environmental footprint be taken into account when assessing the accuracy of the claims?

Yes - a product/company's overall environmental footprint should be taken into account when assessing the accuracy of claims made.

Guidance published by the United Kingdom's Advertising Standards Agency (ASA) on this topic states that the 'risk of exaggeration' may be avoided by marketers through the use of qualifying statements.⁶

5. Where claims of carbon emission reductions are made in advertising, should advertisers be required to specify the extent to which this is achieved by use of carbon offsetting?

Yes.

ACCR is concerned by the undue reliance on the use of offsets towards company emissions reduction targets.

Recent research, including by a previous chair of Australia's Emissions Reduction Assurance Committee (ERAC), has described the Australian offset crediting mechanisms as an "environmental and taxpayer fraud" and concluded that up to 80% of offsets issued under the most commonly used method lack integrity - they neither represent real or additional emissions reduction.⁷

As the UN HLEG on Net Zero Emissions recently reported, the integrity of offsets or carbon credits is not guaranteed by any system or set of standards, and 'too many non-state actors are currently engaging in a voluntary market where low prices and a lack of clear guidance risk delaying the urgent near-term emission reductions needed to avoid the worst impacts of climate change'.⁸

Any claims or implications that fossil and biological carbon are equivalent should be guarded against. The combustion of fossil fuels involves removing carbon from a location that has been stable for millenia and placing it in the biosphere⁹, whereas most offsets to date rely on moving carbon from the atmosphere to another part of the biosphere (e.g. vegetation or soil). Biological sequestration may be stable for years or decades, but will remain exposed to risks such as climate change making landscapes vulnerable to degradation.¹⁰

⁶ ASA, 2022, 'Environmental claims: General "Green" claims',

https://www.asa.org.uk/advice-online/environmental-claims-general-green-claims.html

⁷ Macintosh et al. 2022, https://law.anu.edu.au/sites/all/files/short_-_erf_reform_june_2022_final.pdf

⁸ UN HLEG, 2022, 'Integrity matters: Net Zero Commitments by Business, Financial Institutions, Cities and Regions', https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf

⁹ Carton et al. 2021, https://www.frontiersin.org/articles/10.3389/fclim.2021.664130/full

¹⁰ Mackey et al. 2013, https://www.nature.com/articles/nclimate1804

Companies should be compelled to publish details of any offsets which they are using, noting any applicable scheme. Yes, primarily to ensure offsets are clearly disclosed and are last 6. Are any changes required to section 2 or the Practice Notes resort. Entire product/service lifecycle should also be required within for section 2? If so, why are the scope of consideration. changes required and what specific changes are required? Section 2(a) of the practice note should specify that partial information, no information (silence/omissions), or selectively given information may all be misleading. 7. Environmental claims can The AANA should not rely upon industry-generated standards to cover a range of complex assess environmental claims. issues including carbon emissions, waste diversion or Instead, it should evaluate environmental claims relating to 'net reduction, increased zero' and emissions reduction against the UN's High Level Expert circularity, ecosystem impact, Group (HLEG) guidance on making credible net-zero pledges. biodiversity and more. What independent certification or In brief, the UN HLEG considers that a non-state entity can make a substantiation standards, credible claim to 'net zero' if and when it has: schemes or tests exist in set targets and a pathway to net zero using a robust relation to each type of methodology, which is consistent with limiting warming to environmental claim? Should 1.5C with no or limited overshoot, and which is verified by a any of these standards or tests third party (such as SBTi, PCAF, PACTA, TPI, or ISO) be adopted in the 'achieved its long-term net zero target, with any residual Environmental Claims Code to emissions neutralised by permanent greenhouse gas substantiate each type of removals, according to reports verified by a credible, environmental claim? independent third party, based on publicly available data'. 11 8. Where an environmental If the mark or scheme ceases to exist due to reasons not related to claim is made that relies on a rigour (e.g. bankruptcy of scheme operator) and the mark or scheme certification mark or scheme would have remained valid (i.e. not up to reassessment or renewal), which ceases to exist through then this should be allowed until materials can be updated and the no fault of the advertiser. marketer discontinue use of the certification claims as soon as what, if any, allowance should practical. be made in the Environmental Claims Code for such a If, however, the mark or scheme ceases to exist because it is deemed scenario? insufficient to cover the claims it represents, the onus should be on the advertiser to inform itself of these changes and cease to use it and disclaim it prominently, effective within a very short time window, as immediately as possible. 9. Are any changes required to ACCR is concerned that, at present, the Practice Note to section 3a section 3 or the Practice Notes states that the validity of claims made will only be tested using for section 3? If so, why are information given to Ad Standards by the advertiser or complainant. changes required and what This is a severe limitation on Ad Standards' ability to adequately test specific changes are required? the validity of environmental claims, many of which hinge upon scientific information. Many complainants are ordinary members of the public, and are unable to access and provide such information. Information provided by the advertiser is likely to be impartial,

¹¹ UN HLEG, 2022, 'Integrity matters: Net Zero Commitments by Business, Financial Institutions, Cities and Regions', https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf, p16

selective, or limited in other ways. ACCR is therefore concerned that claims are being assessed based on partial information, and that this undermines the assessment process.

For instance, in the Gas Networks Australia example given in the AANA consultation paper, the response letter from the company omitted the fact that hydrogen gas cannot physically replace methane gas in the current network, above around 10-20% of the gas flow. In order to provide more than 20% of so-called 'renewable gas' to households currently using gas, the current gas network would need to be ripped up and replaced, and gas appliances would need to be replaced to be able to use green hydrogen.

Further, there are serious concerns around 'renewable gas' advertising contributing to lock-in of fossil fuel gas demand. Ads and advocacy like what we see from Gas Networks Australia could prolong the use of fossil gas infrastructure investments in new homes now, holding back the energy transition. Genuine clean energy products are available across the country, while 'renewable gas' is not. Domestic households can run completely on electricity now, which can be provided by renewable energy sources. There may be some industrial processes where gas continues to play a role as a feedstock where green hydrogen is considered as a replacement in future, yet this was not what was being promoted in the advertisement.

The AANA should ensure that it can access scientific climate knowledge and expertise, in order to rigorously evaluate advertisements of this nature. Poor regulation of these advertisements have negative implications for energy policy in Australia, and may contribute to poor climate outcomes.

Ad Standards should be able to carry out its own scientific research and analysis when determining environmental claims, including through consulting with relevant, independent scientific experts.

It could also be beneficial for advertisers to be required to provide more information to the public about their environmental claims. For example, a QR code or a website link where companies clearly outline how their claims are aligned with international goals and frameworks like the Paris Agreement, or Australia's or state-wide emissions reduction or recycling targets, for example.

ACCR does not have any response to Questions 10-12

13. In the event of any inconsistency, should the Environmental Claims Code aim for global best practice on environmental claims standards or consistency with the Australian Consumer Law?

The Environmental Claims Code should be consistent with the Australian Consumer Law wherever possible, and should also accord with previous decisions on misleading and deceptive conduct wherever possible.

The Ad Standards could look to equivalent bodies in the Netherlands and the UK as it develops its best practice. At present, it does not appear to do this.

14. Should the Environmental Claims Code adopt international benchmarks or standards for measuring the environmental impact of a product or company? If yes, please provide details of which international benchmarks or standards should be adopted. If no, please explain why international standards or benchmarks should not be adopted in Australia.

AANA could look to key international standards as it develops its best practice, including those established in the EU and the UK. The European Commission's work on environmental footprints may be valuable.

It would be useful for the AANA to compare its track record of claims assessments against other international benchmarks.

We note that a European Commission sweep of websites found 42% made claims that likely constituted greenwashing¹², while a global sweep conducted by the International Consumer Protection Network and led by regulators in the UK (CMA) and the Netherlands (ACM) produced a similar figure of 40%. ¹³ Australia's ACCC has conducted similar sweeps- (though results are yet to be published, ¹⁴ in part because of the high percentages of false claims identified in the aforementioned international sweeps. ¹⁵

To date, AANA has only upheld 1/50 or 2% of complaints. We recognise that sweeps are necessarily less rigorous than formal complaint assessments and that regulators in the UK and elsewhere have also not upheld high percentages of complaints. Yet we expect these outcomes to increase as the AANA improves its practices. We note that in Australia the ACCC and ASIC have both indicated that applying more scrutiny to greenwashing claims is a key priority. ¹⁶¹⁷

In light of increased regulator efforts to assess green claims, it is advisable that AANA actively seeks to align with regulator requirements, much in the way the UK's ANA aims to ensure consistency between its Guidance and that of the relevant regulator, the CMA. ¹⁸

Aligning with UK, Dutch, EU-level and other leading regulator practice would also be advisable, both to keep the AANA Code up to date and to increase efficiency by proactively pursuing cases found in violation in other jurisdictions (e.g. assess any ads for carbon neutral petrol similar to those banned in the Netherlands or banking ads similar to HSBC ads banned in the UK - especially where ads from the same companies are also shown in Australia).

Greater scrutiny should also be applied to 'net zero' and other claims involving the use of carbon offsets. Not only are offset schemes difficult for general audiences to validate, the IPCC has repeatedly noted that offsets should be an option of last resort and be rigorously proven to create real net reductions in atmospheric carbon. There is

¹² European Commission, 2021, 'Screening of websites for 'greenwashing': half of green claims lack evidence', https://ec.europa.eu/commission/presscorner/detail/en/ip_21_269

¹⁵ UK Competitions and Market Authority, 2021, 'Global sweep finds 40% of firms' green claims could be misleading', https://www.gov.uk/government/news/global-sweep-finds-40-of-firms-green-claims-could-be-misleading

¹⁴ ACCC, 2022, 'ACCC internet sweeps target 'greenwashing', fake online reviews',

https://www.accc.gov.au/media-release/accc-internet-sweeps-target-greenwashing-fake-online-reviews

¹⁵ Guardian Australia, 2022, 'ACCC begins 'greenwashing' crackdown on companies' false environmental claims', https://www.theguardian.com/australia-news/2022/oct/11/accc-begins-greenwashing-crackdown-on-companies-false-

 $[\]frac{\text{https://www.theguardian.com/australia-news/2022/oct/11/accc-begins-greenwashing-crackdown-on-companies-false-environmental-claims}{\text{ms}}$

¹⁶ ACCC, 2022, 'Businesses told to be prepared to back up their environmental claims',

https://www.accc.gov.au/media-release/businesses-told-to-be-prepared-to-back-up-their-environmental-claims

¹⁷ ASIC, 2023, 'ASIC enforcement priorities',

 $[\]underline{\text{https://asic.gov.au/about-asic/asic-investigations-and-enforcement/asic-enforcement-priorities/}}$

¹⁸ ASA, 2022, 'New research into understanding of environmental claims',

https://www.asa.org.uk/news/new-research-into-understanding-of-environmental-claims.html

precedence for a regulator finding the advertising of offsets to be misleading, namely when the Dutch regulator ruled Shell claims that it offset some petrol products to be carbon neutral could not be substantiated.¹⁹

In general, all 'net zero' claims should also be assessed with respect to a) the entire lifecycle of the product or service; and b) in the context of the advertising company's entire activities.

15. Should the Environmental Claims Code include a list of specific marketing practices which would automatically be deemed to be misleading and in breach of the Code, similar to that being proposed by the EC?

Yes, and this would help more effectively identify misleading advertising. Certain words and phrases such as 'green', 'clean', 'eco', 'carbon neutral', 'environmentally friendly', 'net zero' etc, should be required to be substantiated with considerable evidence.

The use of certain phrases and words should automatically be deemed to be misleading - e.g. 'clean coal' is a misnomer, as coal necessarily produces significant greenhouse gas emissions when burned.

Companies with a net-negative environmental impact - e.g. fossil fuels and mining companies which are misaligned with the scientific climate consensus and international frameworks - should also not be permitted to make general claims suggesting they have a positive environmental impact.

16. Should the Environmental Claims Code contain more guidance around product characteristics or future environmental performance of products, similar to that guidance in the EC proposed amendment to Articles 6 and 7 of the UCPD?

Yes, more guidance is warranted and Articles 6 and 7 of the UCPD provide a useful benchmark for this. It is especially pertinent to include further guidance on how and when an advertiser can claim its product or service is 'net zero', 'carbon neutral', 'supports the Paris Agreement' and so forth.

17. Unlike the UK Code, the AANA Environmental Claims Code does not include a rule that omitting significant information in relation to general environmental claims could amount to misleading advertising. Should this be included in the new Environmental Claims Code or Practice Notes?

Yes, as the UK ASA CAP Code states, "Unqualified claims could mislead if they omit significant information", and as the UK CMA Code state, "Misleading environmental claims occur where a business makes claims about its products, services, processes, brands or its operations as a whole, or omits or hides information, to give the impression they are less harmful or more beneficial to the environment than they really are."

It is important to include a rule noting omission as potentially misleading as this is a powerful and arguably frequent form of greenwashing. By cherry-picking examples of small, positive actions that are disproportionate to and not representative of the majority of a company's activities, consumers can easily be misled. It is very difficult for audiences - both general and specialist - to feasibly check for omitted information and places undue burden on the audience to preempt omissions of all sorts.

¹⁹ SRC, 2021, 'RCC oordeelt over reclame Shell', https://www.reclamecode.nl/news/rcc-oordeelt-over-reclame-shell/; Bloomberg, 2021, 'Dutch Ad Watchdog Tells Shell to Pull 'Carbon Neutral' Campaign',

 $[\]underline{https://www.bloomberg.com/news/articles/2021-08-27/dutch-ad-watchdog-tells-shell-to-pull-carbon-neutral-campaign}$

	The UK ASA banning of HSBC advertisements due to "omitted material information" about the bank's "contribution to carbon dioxide and greenhouse gas emissions" was made on the grounds that it was misleading and is an important case in point. ²⁰
18. Should the AANA Environmental Claims Code include a rule that environmental claims must be based on the full life cycle of the advertised product or service?	Yes. The full life cycle of a product is what is overall the most important factor for considering if it is "clean", "recycled", "net zero", "climate friendly", or any other claim. We see a role for including the insights and expertise of scientists to be able to help verify the full life cycle of products and to be able to request further relevant information from advertisers as needed to assess the claim.
	Including this rule would be aligned with the UK CMA Code, which states: "claims must consider the full life cycle of the product or service" and that "claims which ignore significant negative environmental impacts in order to focus on minor benefits or small parts of a business's activities are still at risk of misleading consumers".
	The UK ASA CAP Code also states: "Marketers must base environmental claims on the full life cycle of the advertised product, unless the marketing communication states otherwise, and must make clear the limits of the life cycle."
	Advertisers should therefore be required to provide information on all emissions, Scope 1-3, for their products and make their analysis easily available in detail online. Evidence of other lifecycle impacts, such as recyclability and other factors, should similarly be evidenced by accredited lifecycle assessments made publicly available online. More generally, subject matter experts should be made available to assist panels to lifecycle impact claims.
19. Are there any other rules in the UK Code which should be incorporated into the Environmental Claims Code?	Sections 9.2, 9.3, 9.4 and 9.5 of the UK Code should be incorporated to the AANA Environmental Claims Code.
20. Should the Environmental Claims Code align with the updated ICC Framework and additional guidance on emerging environmental claims?	No. The International Chamber of Commerce (ICC) is not an independent nor a scientific entity, and so it is not the best reference for recent climate science.
21. In the case of general environmental claims, should the Environmental Claims Code require substantiation based on the full lifecycle of the product or business? How can this be proven by advertisers and verified by	Yes, claims should always be made at the full lifecycle level and be substantiated by verifiable and publicly available evidence. See also Q18.

 $^{^{20}\,\}text{ASA, 2022, 'ASA Ruling on HSBC UK Bank plc', } \underline{\text{https://www.asa.org.uk/rulings/hsbc-uk-bank-plc-g21-1127656-hsbc-uk-bank-plc.html}}$

consumers? Where possible, please provide examples.		
ACCR does not have any response to Question 22		
23. Do you have any additional suggestions or comments on the review of the Environmental Claims Code?	It would be beneficial to allow complainants to refer to ACCC or ASIC guidances and rulings in practice when they are stronger than the AANA Code standards. Introducing channels to appeal panel assessments and request further subject matter expert opinion would also improve the robustness of the claims assessment process. A process to allow for the arguments of advertisers themselves to be assessed for validity, prior to the panel finalising its decision, would be beneficial.	

Thank you for the opportunity to comment on the AANA Environmental Claims Code. Please feel free to be in touch to discuss any part of this submission.