ISEAS YUSOF ISHAK INSTITUTE

ISSUE: 2022 No. 31

ISSN 2335-6677

PERSPECTIVE

RESEARCHERS AT ISEAS – YUSOF ISHAK INSTITUTE ANALYSE CURRENT EVENTS

Singapore | 1 April 2022

Greenwashing: A Market Distortion Needing Serious Attention in Southeast Asia

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Indonesian activists participate in a rally calling for action against climate change, in Jakarta on November 29, 2019. Picture: BAY ISMOYO / AFP.

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ISSN 2335-6677

EXECUTIVE SUMMARY

- "Greenwashing" refers to the practice of falsely claiming that a product, service or business activity is environmentally-friendly, or reduces greenhouse gas emissions, when it does not.

- It distorts consumer patterns of purchasing; penalises legitimate eco-friendly businesses who are bringing real and meaningful innovations to the marketplace; and creates a risk that new, more sustainable products and services will fail, allowing unsustainable business practices to continue to thrive.

- Current examples in Southeast Asia include questionable net emissions claims for electrical vehicles manufactured in the region; mistakenly labelling carbon capture as "clean coal"; and claims about financial investments.

- Possible steps to reduce greenwashing can include increasing the level of knowledge about environmental matters amongst firm employees, managers and company directors; educating marketing professionals about the issues; applying greater scrutiny of advertising claims by competition and consumer protection regulators; implementing standardised financial taxonomies for investors; and encouraging civil society to be more active in the area.

INTRODUCTION

Consumers and businesses are increasingly making a conscious effort to buy products and services that help promote ecological sustainability, assist the environment, and reduce the impact of climate change. But are they always getting what they expect when they buy such commodities?

In many cases, they are not, and this is due to the process of greenwashing.

"Greenwashing" is the process of labelling or marketing something as sustainable, green, or eco-friendly when that is not the case. It is the making of superficial statements, pledges or claims which have not been backed by transparent and verifiable data, and is commonly designed to lure purchasers into falsely believing that a commodity is more environmentally beneficial than it actually is (Timmins 2021; Ramakrishnan 2022). Whilst the full extent of this practice is difficult to measure, the European Commission recently found that more than 40% of the 'seemingly dubious' green claims made on business websites were incorrect or misleading (European Commission 2021). And a recent study of multinational corporations found that up to 30% of such firms often provide incorrect data about their emissions levels, with the biggest anomalies occurring in fossil fuel industries and involving major global entities such as Exxon Mobil, Imperial Oil and Shell (Kishan 2022).

The practice of greenwashing is already found in businesses in many parts of Southeast Asia, and poses a risk to the successful emergence of bona fide green enterprises. What forms does it take, and what practical steps can consumers, governments, regulators and other businesses take to reduce it?

THE NATURE OF GREENWASHING

A number of characteristics are typical of greenwashing practices. Many claims about particular products are presented in vague, nebulous terms which are hard to quantify, measure or empirically validate. Commonly-used descriptors are words such as "natural," "organic", "eco-friendly," "save the planet," "sustainable," "green", or such similar terms. They are often accompanied by pictures or graphics evoking green sentiments. Together, these terms and images work to imply a sense of environmental responsibility without actually delivering in any real or meaningful way (Timmins 2021). Whilst these claims usually occur in relation to representations made to the general public and consumers, they can also occur within a firm when companies incorrectly make claims to their own staff, shareholders, investors and directors (Oliver 2022).

A less obvious form of greenwashing, but one which is particularly relevant to multinational corporations and large enterprises, is a failure to provide a holistic view of the firm's overall environmental impact. A business may sell "eco-friendly" products under one label but at the same time continue to engage in high levels of fossil fuel consumption, production of

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greenhouse gas emissions, or environmental damage through other brands or firms which are ultimately owned by the same corporate parent (Timmins 2021).

Greenwashing poses a number of real and present risks. In the first place, it allows misleading and deceptive conduct to distort consumer patterns of purchasing. Secondly, it penalises legitimate eco-friendly businesses that are bringing real and meaningful innovations to the marketplace. If consumers cannot form an accurate understanding of what truly is a sustainable commodity, then they will often be misled into bypassing genuine offerings and purchasing false ones instead. Green businesses often thus find themselves competing on an unfair basis with firms that have not borne the cost of becoming more sustainable. Both of these factors combine to present a third risk: that new, more sustainable products and services fail to succeed in the marketplace, and are instead replaced by unsustainable rival offerings.

Why do consumers fall for greenwashing? Information asymmetry lies at the heart of the phenomenon. There is a significant imbalance in what different parties know about a firm's environmental practices, and in their capacity to find out more. Individual purchasers of products rarely know the full background about how an item is produced and do not have the capacity to fully research this, thus relying on the assurances and claims made by the vendor. In effect, they take a business's claims and advertising at face value.

Complexity is a second but equally important factor. There are many different ways in which a business can act in a greener fashion but what constitutes a green, eco-friendly, or sustainable product is not a straightforward matter. For instance, is the determining factor its level of greenhouse gas emissions? Is it sustainable use and protection of land or water? Is it participation in the circular economy? Is it pollution prevention and control? Or restoration of biodiversity, plant and animal species, and ecosystems? Many different variables are at play, and it is possible for a firm to have strong environmental credentials in one domain whilst simultaneously delivering a poor performance in another (Lucarelli, Mazzoli, Rancan & Severini 2020). Validating claims to greater sustainability is often a complex assessment process beyond the capacity of consumers to make.

There is also the question as to why firms engage in the practice of greenwashing. A principal cause can be businesses seeking to benefit from the increasing number of consumers wanting and being prepared to pay a premium for green products. Another driver may be the competitive advantage of portraying a more environmentally-conscious image (Ramakrishnan 2022). A third factor may be the wish to secure a social license to operate from the community and regulators, especially in industries whose environmental record to date has been questionable. Sometimes greenwashing can occur through inadvertent mistakes, such as those made by firms who genuinely believe their data are correct when they are not, or when an unsustainable supplier or a unit of the company has not been fully compliant with the broader climate strategy of a firm (Pizzetti, Gatti & Seele 2019).

Greenwashing is not a new phenomenon. Almost a decade ago, for example, business press stories in the Asia Pacific were already running about dubious carbon tax claims (Eco-Business 2012). However, many of these were drawn from countries outside of Southeast

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Asia, such as Australia, the United States, the United Kingdom and the European Union, where green issues had come to public and regulatory prominence far sooner than in this region. Today, though, greenwashing is as much a problem in Southeast Asia as it is anywhere else.

GREENWASHING: UBIQUITUOUS IN MANY INDUSTRIES

A number of greenwashing problems have already surfaced in Southeast Asia.

One sector is in automotive manufacturing, where several Thai, Vietnamese and Indonesian companies are poised to ride the new wave of electric vehicle production. Indeed, electric vehicles on the streets of Southeast Asia often conjure a green image that may, in fact, be misleading. While the electrification of automobiles may reduce carbon emissions, the generation of hydrogen fuel for these electric vehicles often relies heavily on the use of dirty coal. Unless this form of power generation capacity in future is drawn from renewable sources, the use of electric vehicles will remain carbon-intensive and claims made about their contribution to environmental sustainability will likewise remain questionable.

Another problematic area is the use of carbon capture and storage as a way to produce so-called "clean coal." An intensive producer of greenhouse gas emissions, coal remains a major energy source throughout the region. The effectiveness of carbon capture technology in remediating the overall level of greenhouse emission is still uncertain at best and often highly contested at worst, especially at an industrial scale (Garcia Freites & Jones 2021). Despite this, energy companies – both state-owned and private – rarely acknowledge this in their strategic plans or marketing.

Numerous smaller-scale greenwashing practices can also be found amongst other businesses. These have included cases of manufacturing companies mixing plastics into paper bottles; the use of scientifically unsupported claims about aluminium being greener than plastic; and ambiguous marketing slogans about recycling (Hicks 2021b). Some issues are also cultural: many small-scale retailers in the region profess to subscribe to sustainability, but often wrap consumer products in substantial amounts of plastic and other packaging, a practice which is still usually expected of them by purchasers (Bassett 2019).

Environmental claims in the financial services sector are becoming increasingly significant. Many firms are now pursuing investor funds with bold claims as to their environmental and sustainability credentials, but on a number of occasions, these have been proven to be dubious (Teh 2021). There are also numerous different rating systems claiming to impartially evaluate the environmental, sustainability and governance (ESG) impact of various investment products for investors in Southeast Asia, but they often operate using quite different metrics and are difficult to compare. A number of financial service regulators have become increasingly focused on this area; in November 2021, the Monetary Authority of Singapore announced that it would begin a series of detailed stress tests and impose

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mandatory sustainability disclosure requirements on banks and firms listed on the Singapore Stock Exchange (Chanjaroen & Amin 2021).

The role of policy and regulation is one area that is developing quickly. Litigation over spurious environmental claims is becoming increasingly common, using not only national laws, but also decisions now provided by multilateral bodies. BP, for example, was obliged to withdraw a major advertising campaign in 2020 after a public interest law firm complained that it breached the OECD's *Guidelines for Multinational Enterprises*, creating a misleading impression about its move to renewable energy and away from fossil fuels (Barker & Worthington 2021).

Consumer protection laws in this area, however, are sometimes weak. One examination of the Thai regulatory framework, for example, concluded that "… this study finds that the consumer protection law of Thailand is inadequate to resolve the disputes which may arise over the issue of sustainability claims and labelling" (Tongsup 2016: 1). Other commentators have made similar claims (Hannon 2021).

WHERE NEXT?

Reducing or removing the incidence of greenwashing is important if market dynamics and consumer action are to effectively drive demand for cleaner, greener, more environmentally friendly products and services. To do this, a number of steps are still needed.

At the individual firm level, businesses need to ensure they have the requisite technical and environmental knowledge needed to ensure they genuinely are operating in a green manner. This means investing in staff training, reviewing inhouse processes, and ensuring boards include directors with specialist skills in sustainability, climate change and environmental matters. For smaller firms with limited resources, governments can play a role by providing access to advice and certification schemes which might allow businesses to ensure that their processes and products are operating in a sustainable manner.

The marketing industry also needs to be involved in efforts to deal with this problem. As the enabling mechanism through which businesses typically channel green claims out into public messages, the advertising and promotions profession can play a role in checking and validating claims before they are presented to consumers. Encouragingly, the Public Relations & Communications Association of Southeast Asia announced in June last year that it was establishing a working party to look into the issue, set standards, and raise industry awareness (Hicks 2021a). This is a welcome and positive first step for the industry.

Governments should also encourage their national competition and consumer protection agencies to crack down on misleading and deceptive greenwashing claims. Indeed, a number of competition regulators in the region are already showing an interest in the topic. In late 2021, for example, the Competition and Consumer Commission of Singapore invited researchers to bid for grants investigating sustainability-related issues, including greenwashing. It will be interesting to see what emerges from these studies over time. A more proactive approach might be to adopt the approach taken by regulators in nations such as the Australia and the UK, where clear guidance is often provided and greenwashing claims are frequently prosecuted (Competition and Markets Authority 2021).

In the financial services sector, there is a growing awareness that a consistent set of financial taxonomies (definitions) is required to ensure that all investment products are judged on an equal basis. The current absence of clarity in definitions has been frequently cited by commentators as providing "wiggle room" that allows unsustainable financing ventures to be presented as green ones (European Commission 2019). The use of common definitions and categories, labels and standards will help investors make more informed decisions about where, and to whom, they entrust their money. ASEAN has started to make some initial steps in this direction (including the first iteration of its proposed taxonomic system in November 2021), which is to be encouraged.

Company directors have to be more vigilant in policing their own firms' claims about environmental impacts, especially those relating to climate change. This is already starting to occur, with a number of national director associations now actively engaging on a range of environmental issues. The Singapore Institute of Directors, for example, has already published articles on greenwashing (Ramakrishnan 2022) and, in February 2022, the ASEAN Climate Governance Network was launched, with the support of the national director associations in each country. As the level of director awareness about sustainability increases, there should be a commensurate raising of corporate standards in their public messaging.

Consumer groups and civil society also have a role to play. Individual customers may not be in a position to call out greenwashing claims, but bodies such as national consumer associations, environmental advocacy bodies and public interest law groups have a greater capacity to do so; they should be encouraged to speak out when they can identify examples of corporate greenwashing. Advertising agencies could also be encouraged to exercise their conscience and decline potential work with business clients that are not offering genuinely green products or services; this is already increasingly becoming a common professional practice in nations such as the UK (Watson 2021).

Finally, industry associations and business groups should also be encouraged to consider developing their own eco-friendly certification systems. If done accurately, they can allow the public to easily identify greener products and services, whilst also encouraging various business sectors to improve their environmental performance. Green standards already exist in numerous industries, but there are many more that could also benefit from such programmes.

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CONCLUSION

Markets can be a powerful force for generating social, cultural, economic and environmental reform. Properly informed consumers and investors can, and often do, drive change through the astute use of their purchasing and spending power. However, to be successful, it requires a marketplace in which honest and accurate information is made freely available, and in which decisions are made on a properly informed basis.

Greenwashing is more than just a quirky marketing practice; it has the potential to seriously distort the effective expression of consumer and social concerns about environmental issues. As the push for greater sustainability and climate-friendly practices gathers pace across society, we can expect this topic to become more, not less, important in Southeast Asia.

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