

22 JUNE 2023

# ACF submission to the Senate's inquiry into greenwashing

## Introduction

The Australian Conservation Foundation (ACF) welcomes the opportunity to provide a submission to the Senate's inquiry into greenwashing, and we thank the Senate for recognising this issue as a matter of importance.

ACF is Australia's national environment organisation. We are a community of over half a million people who speak out for the air we breathe, the water we drink, and the places and wildlife we love. We are proudly independent, non-partisan and funded by donations from our community.

Australia, and the world, are in the critical decade to take action to address climate change. To keep global warming to around 1.5 degrees,<sup>1</sup> global greenhouse gas emissions must peak within the next two years and be reduced by 43% by 2030<sup>2</sup> – just seven short years from now. The actions we take now matter.

Greenwashing undermines the level of climate action needed in this crucial decade by creating a false impression of environmental responsibility, and by misleading consumers, investors, and the public on the actions taken by companies to reduce emissions. This has a broader impact on society as emissions are not being reduced at the pace needed to ensure a safe operating space for humanity.

This submission focuses on two issues which are of high risk for greenwashing and would benefit from further investigation by the Committee: net-zero commitments and carbon neutral claims. Without strong regulatory guidance, net-zero commitments and carbon neutral claims can allow companies to appear environmentally responsible without needing to make substantial efforts to reduce emissions. These statements influence how companies are perceived, which misleads consumers and investors to select products, businesses, or services which do not support genuine emissions reduction and diverts attention away from climate leaders.

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<sup>1</sup> Above pre-industrial levels by 2100

<sup>2</sup> IPCC, 'Mitigation of Climate Change', (2022), at:

[https://www.ipcc.ch/site/assets/uploads/2022/06/SBSTA\\_IPCC\\_WGIIPresentation.pdf](https://www.ipcc.ch/site/assets/uploads/2022/06/SBSTA_IPCC_WGIIPresentation.pdf)



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## Summary of Recommendations

- **Recommendation 1:** The Australian Government issue minimum requirements for net-zero commitments which are in line with guidance from the UN Expert Group, the ISO and the SBTi. This includes requirements that net-zero commitments must cover all scopes of emissions and must not use carbon credits to achieve near-term or long-term targets.
- **Recommendation 2:** The Australian Government accelerate the mandate of climate-related financial disclosures in line with the ISSB standards. This should specifically include the mandatory disclosure of scopes 1, 2 and 3 emissions.
- **Recommendation 3:** The Australian Government should consider regulatory options to control the use of carbon neutral marketing, including the consideration of an outright ban.
- **Recommendation 4:** The Australian Government undertake an independent, transparent expert review of the Climate Active certification. The review should focus on the coverage of organisations' entire value chain emissions and the integrity of carbon credits used to offset emissions. As a part of this review, the Government should reconsider the benefit of this scheme.

### 1. Net-zero Commitments

Australian businesses have a critical role to play in the transition to a low-carbon economy and net-zero targets can be a powerful way to demonstrate their commitment to emissions reduction. Today, nearly 70% of the global economy is committed to net-zero by 2050.<sup>3</sup>

However, the UN High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities (UN Expert Group) has warned that a lack of clear, transparent, and accepted standards for net zero commitments has enabled greenwashing.<sup>4</sup> Many net-zero commitments lack integrity as they profess ambitious goals to reach net-zero emissions but are not backed by clear, near-term actions to drive down real emissions.

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<sup>3</sup> Science-Based Net-Zero Targets, 'Less Net, more Zero', (2021), at: <https://sciencebasedtargets.org/blog/science-based-net-zero-targets-less-net-more-zero>

<sup>4</sup> United Nations High-level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, 'Integrity matters: Net zero commitments by businesses, financial institutions, cities and regions, (2022), at: [https://www.un.org/sites/un2.un.org/files/high-level\\_expert\\_group\\_n7b.pdf](https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf)



Net-zero commitments that are not backed by clear actions and transparent timelines for progressing an organisation's commitments pose a serious risk of misleading consumers and investors by signalling that a company is doing more than they actually are. At worst, this results in investors and consumers making choices which they believe are aligned with their own climate goals or ambitions that do not actually achieve genuine emissions reductions. This creates harm for consumers, poses a risk for investors, and contributes to a broader negative societal impact by moving Australia further away from our emission reduction targets.

Standardisation of net-zero commitments is critically important. Beyond the largest and most sophisticated investor groups, it is not reasonable to expect the average consumer or investor to analyse and interpret the veracity of a company's decarbonisation pathway. The adoption of a federal standard for net-zero commitments would provide Australian regulators such as the ASIC and ACCC a clear baseline from which to assess the net-zero claims of companies, thereby aiding their ability to investigate and take enforcement action against serious cases of greenwashing.

Standardisation of the reporting of emissions can also be aided through the development of a mandatory climate-related financial disclosure framework. ACF supports the Government's efforts to develop a robust disclosure framework and welcomed the start of consultation on the framework earlier this year. ACF urges the Government to accelerate the development of the framework and to ensure that the framework is implemented no later than financial year 2024-25.

Below, this submission provides further detail on two common practices which diminish the credibility of net-zero commitments and builds the case for standardisation.

### 1.1 Scopes of emissions

Under the Greenhouse Gas Protocol Corporate Standard, a company's value chain emissions are separated into three scopes: scope 1 covers direct emissions from a business' daily operations, scope 2 covers indirect upstream emissions from the energy purchased by a business for its operations and scope 3 covers emissions that arise as a consequence of the activities of a business, but from sources not owned or controlled by that business.<sup>5</sup> For companies such as those operating in the coal, oil and gas industries—which are the largest drivers of greenhouse gas emissions globally—scope 3 emissions can account for 90% of their emissions.<sup>6</sup>

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<sup>5</sup> World Business Council for Sustainable Development and World Resources Institute, 'The Greenhouse Gas Protocol (Revised)', (2004), at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocolrevised.pdf>

<sup>6</sup> World Business Council for Sustainable Development and World Resources Institute, 'The Greenhouse Gas Protocol (Revised)', (2004), at: <https://ghgprotocol.org/sites/default/files/standards/ghg-protocolrevised.pdf>





International experts such as the UN Expert Group, the International Standardisation Organisation<sup>7</sup> (ISO) and the Science Based Targets Initiative<sup>8,9</sup> (SBTi), unanimously agree that net-zero commitments must cover all scopes of emissions (scope 1, 2 and 3) in order to demonstrate a commitment to genuine emissions reduction. Yet, it is exceedingly frequent that companies make and advertise net-zero claims which only pertain to scope 1 and 2 emissions.

For example, Chevron, a company producing oil and gas, has disclosed that it aspires to reach net-zero emissions (scope 1 and 2) by 2050.<sup>10</sup> In 2022, Chevron reported 57mtCO<sub>2</sub>e in scope 1 and 2 emissions and 668 mtCO<sub>2</sub>e – almost 12 times more – in scope 3 emissions.<sup>11</sup> Chevron’s net-zero target ignores more than 90% of the company’s current climate impact. It is evident that Chevron’s net-zero aspiration will have little impact on the company’s overall emissions profile. The application of the term ‘net-zero’ is likely to wrongly lead consumers and investors to believe that the company is achieving genuine emissions reduction.

## **1.2 Reliance on carbon credits and unproven technologies**

An additional problem underpinning many net-zero commitments is a decarbonisation pathway that relies on carbon offsets or unproven technologies. Emission reduction pathways which are substantially based on either offsets or unproven technologies, are unlikely to achieve real world emission reduction now, when it crucially matters.

Whilst carbon credits have a role to play in net-zero plans, they must only be used to neutralise residual emissions<sup>12</sup> once companies have achieved emissions reduction targets or be limited to additional, beyond value-chain, emissions mitigation.<sup>13</sup> In 2021, the SBTi launched the world’s first net-zero standard for corporations in which it states, “the use of carbon credits must not be counted as emission reductions toward the progress of companies’

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<sup>7</sup> International Standardisation Organisation, ‘Net-zero guidelines’, (2022), at: <https://www.iso.org/obp/ui/en/#iso:std:iso:iwa:42:ed-1:v1:en>

<sup>8</sup> Science Based Targets Initiative, ‘SBTi Corporate Net-zero Standard’, (2023), at: <https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>

<sup>9</sup> The SBTi states that a long-term science based target should cover at least 95% of company-wide scope 1 and 2 emissions and 90% of scope 3 emissions.

<sup>10</sup> Chevron, Sustainability Report, (2022), at: <https://www.chevron.com/-/media/shared-media/documents/chevron-sustainability-report-2022.pdf>

<sup>11</sup> Chevron, Sustainability Report, (2022), at: <https://www.chevron.com/-/media/shared-media/documents/chevron-sustainability-report-2022.pdf>

<sup>12</sup> Limited to 5-10%

<sup>13</sup> Beyond value chain emissions reduction refers to mitigation actions or investments to avoid or reduce GHG emissions that fall outside of a company’s value chain. More information available at: <https://sciencebasedtargets.org/resources/files/Beyond-Value-Chain-Mitigation-FAQ.pdf>



near-term or long-term science-based targets”.<sup>14</sup> The UN Expert Group added to this advice, urging that “high integrity carbon credits in voluntary markets should be used for beyond value chain mitigation but *cannot be counted toward a non-state actor’s interim emissions reduction* [emphasis added] required by its net zero pathway.”<sup>15</sup>

Despite this guidance, Chevron’s net-zero ambition for scope 1 and 2 emissions reduction relies on technologies including carbon credits and carbon-capture storage. Chevron states “Accomplishing this aspiration depends on continuing progress on commercially viable technology, government policy, successful negotiations for carbon capture and storage and nature-based projects, availability of cost-effective, verifiable offsets in the global market, and granting of necessary permits by governing authorities”.<sup>16</sup> While Chevron’s significant reliance on offsets and dependence on removals is quietly noted in its Sustainability Report, its advertisement is not accompanied by such disclaimers (see Figure 1).

### 1.3 Concluding remarks

Given the above examples, it’s possible to see how Chevron’s promotion of its net-zero commitment could be misleading for consumers or investors. Yet, this behaviour is not just limited to Chevron – there is evidence of other fossil fuel companies such as Santos, promoting net-zero commitments which rely on carbon offset and pertain only to scope 1 and 2 emissions (see Figure 2). As such, the implementation of a federal standard for net-zero commitments, as well as the timely introduction of mandatory climate-related disclosures, will help guide both companies in setting robust net-zero targets, as well as aid Australian regulators, investors, and consumers in interpreting such claims.

**Recommendation 1:** The Australian Government issues minimum requirements for net-zero commitments which are in line with guidance from the UN Expert Group, the ISO and the SBTi. This includes requirements that net-zero commitments must cover all scopes of emissions and must not use carbon credits to achieve near-term or long-term targets.

**Recommendation 2:** The Australian Government accelerate the mandate of climate-related financial disclosures in line with the ISSB standards. This should specifically include the mandatory disclosure of scopes 1, 2 and 3 emissions.

<sup>14</sup> Science-Based Targets Initiative, ‘SBTi Corporate net-zero standard’, (2023), at:

<https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf>

<sup>15</sup> United Nations High-level Expert Group on the Net Zero Emissions Commitments of Non-State Entities, ‘Integrity matters: Net zero commitments by businesses, financial institutions, cities and regions, (2022), at:

[https://www.un.org/sites/un2.un.org/files/high-level\\_expert\\_group\\_n7b.pdf](https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf)

<sup>16</sup> Chevron, Sustainability Report, (2022), at: <https://www.chevron.com/-/media/shared-media/documents/chevron-sustainability-report-2022.pdf>





Figure 1: Evidence of Chevron's Net-zero Advertising on LinkedIn

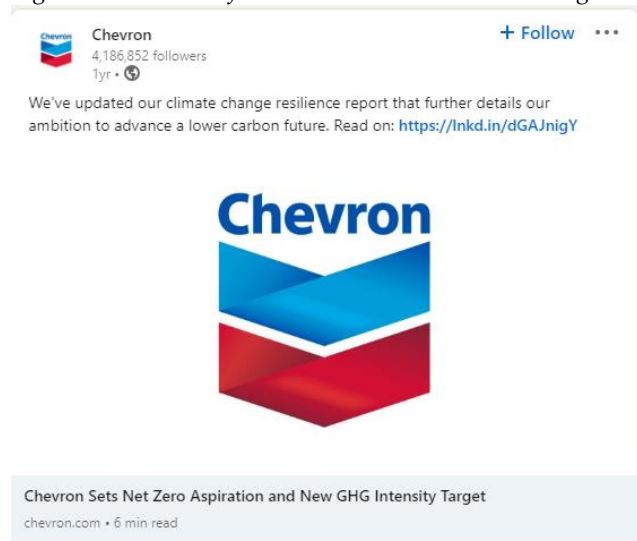


Figure 2: Evidence of Santos' Net-zero Advertising on Facebook



## 2. Carbon Neutral Claims

Carbon neutral labels have become a popular way for companies to market their climate credentials to consumers and their investors. Yet in many cases, these claims are confusing – and at worst misleading and deceptive – because they do not guarantee genuine emissions reductions in line with a science-based pathway. Unlike robust net-zero commitments, carbon neutral claims allow companies to calculate their emissions for a given year and purchase carbon credits to offset their emissions, without requiring actions to significantly *reduce* emissions.



Significant gaps in both the public's understanding of the meaning of carbon neutrality and issues with the integrity of certification schemes make carbon neutral claims a serious greenwashing risk. Recent polling by The Australian Institute shows that, while a majority of Australians (85%) recognise the term 'carbon neutral', just one in three understand what it means.<sup>17</sup> Generic use of the term 'carbon neutral' to market and promote companies or products as sustainable must be regulated.

International jurisdictions have begun to tighten their control over the use of carbon neutral claims. In May this year, the EU Parliament voted in favour of a ban on the use of general environmental claims like 'climate neutral' and has plans to ban environmental claims that are based solely on carbon offsetting schemes in the future.<sup>18</sup> The Australian Government should consider regulatory options to control the use of carbon neutral marketing, including the consideration of an outright ban.

## 2.1 Climate Active

Despite the proven issues with carbon neutral claims, the Australian Government's Climate Active scheme was established as a voluntary program to certify carbon neutral organisations, products, services, buildings, precincts or events. Concerns have been raised about how this initiative has inadvertently contributed to greenwashing. The scheme does not strictly require companies to calculate, reduce and offset emissions from their entire value chain (scope 1, 2 and 3), nor does it have strict requirements for emissions reduction in line with a science-based pathway. Moreover, the lack of governance and transparency in carbon credit markets undermines their additionality and permanency of emissions which are offset. Use of the Climate Active label as a marketing scheme to promote carbon neutrality wrongly misleads consumers and investors to support organisations or products which do not yield genuine emissions reduction and diverts attention away from climate leaders.

ACF acknowledges the Government's efforts to review and improve the Climate Active certification scheme and is grateful for the consultations which have been held with industry and civil society thus far. Whilst this is an encouraging and necessary step, the Government must also consider the broader implications of the use of carbon neutral claims and the Climate Active scheme to market products or organisations as sustainable. ACF urges the Government to facilitate an independent and transparent expert review of the Climate Active scheme to determine its effectiveness in enabling actual emissions reduction and unsubstantiated use as a marketing tool.

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<sup>17</sup> Australia Institute, 'Polling - Carbon neutrality, net zero and carbon offsets', (2023), at: <https://australiainstitute.org.au/report/polling-carbon-neutrality-net-zero-and-carbon-offsets/>

<sup>18</sup> European Parliament, 'Parliament backs new rules for sustainable, durable products and no greenwashing', (2023), at: <https://www.europarl.europa.eu/news/en/press-room/20230505IPR85011/parliament-backs-new-rules-for-sustainable-durable-products-and-no-greenwashing>



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**Recommendation 3:** The Australian Government should consider regulatory options to control the use of carbon neutral marketing, including the consideration of an outright ban.

**Recommendation 4:** The Australian Government undertake an independent, transparent expert review of the Climate Active certification. The review should focus on the coverage of organisations' entire value chain emissions and the integrity of carbon credits used to offset emissions. As a part of this review, the Government should reconsider the benefit of this scheme.

