

It ain't easy being green

Maintaining consumer trust in green goods
and addressing 'greenwashing' claims

Amy Norman

SMF

Social Market
Foundation

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ABOUT THIS REPORT

This report is the fourth report of a series as part of the Social Market Foundation's Net Zero project, undertaken in partnership with ScottishPower. The research draws on a consumer survey and online focus group commissioned from Opinium, and two private roundtable events hosted by the Social Market Foundation in November 2020 and April 2021. These events, held under the Chatham House rule, brought together senior policymakers and politicians, and experts and stakeholders in climate policy and other sectors. The polling was conducted in early-2020, before the pandemic, although we believe it is unlikely that attitudes would have changed significantly over the past year. While this paper reports some of the views expressed at the event by attendees, the conclusions and recommendations made here are those of the SMF alone.

EXECUTIVE SUMMARY

Reaching net zero emissions requires climate action, not just from the government by way of policy sticks and carrots to reduce production emissions, but from citizens making greener, more sustainable decisions in their everyday lives too. As the main means of exchange and distribution in our economy, markets play a critical role in supporting the transition to net zero through the provision of green products and services, such as electric vehicles and green energy tariffs.

Consumer trust is fundamental to the functioning of any market. Where consumers are less able to identify and verify the environmental attributes of products themselves – such as in the energy market, where renewable electricity seemingly operates no differently to fossil fuels – trust is an even greater prerequisite. Businesses that mislead consumers on the environmental benefits of products risk undermining consumer trust in existing and future markets, as well as the net zero agenda more broadly.

The practice of misleading consumers on the environmental attributes of a business, product or service is known as greenwashing. As part of a recent investigation into greenwashing, the Competition and Markets Authority found that 40% of green claims made online could be misleading in some way. In the energy retail sector, there is also a growing concern that not all tariffs marketed as 100% renewable are as green as they say they are. This is due to the nature of the accreditation framework, whereby the certification of renewable energy can be sold separately from the electricity itself, creating a secondary market for certificates that suppliers can purchase without necessarily sourcing renewable energy.

The presence of greenwashing in a market risks climate action for two key reasons. Firstly, where high-emitting products continue to be manufactured and sold under the guise of 'green', greenwashing may slow investment in low-carbon alternatives and thus the progress of decarbonisation. Secondly, where consumers perceive that they have been misled, greenwashing threatens the viability of the whole Net Zero agenda by fuelling political backlash.

The Department for Business, Energy and Industrial Strategy's (BEIS) recently published Energy Retail Market Strategy set out the Government's short, medium, and long-term key goals and actions for the 2020s. A commitment to "*ensur[ing] consumers are accurately informed about their personal contribution to Net Zero, with an initial focus on 'green tariffs'*" was included as a medium-term goal from 2024 onwards. The publication also recognised greenwashing and the importance of consumer trust in green tariffs, particularly for the goal of stimulating additional investment in low carbon generation. The Government's recognition of these challenges is welcome, however, delaying action on green tariffs until 2024 will likely make it harder for the Government to reach its climate targets for offshore wind by 2030, given the significant amounts of additional investment needed to boost capacity. We welcome the recently-launched consultation from BEIS on the transparency of energy products, including green energy tariffs and hope that it serves as an opportunity to consider whether action should be taken before 2024.

Recent media coverage on the decarbonisation of home heat has demonstrated how fragile political support for the Net Zero agenda could be if people feel as though climate action is unfair.¹ This is particularly the case where lower-income voters may feel misled by the costs or benefits of climate policy and green goods.

Public attitudes

The Social Market Foundation commissioned polling and an online pop-up community from Opinium to understand people's attitudes towards and understanding of net zero, including on green energy tariffs and sustainable consumption. The findings showed that:

Consumers do not know enough and do not trust enough about green goods

Support for green energy tariffs exists, but rests on fragile foundations of limited public understanding.

- Two in five (39%) respondents say they do not know enough to decide what a green energy tariff is out of a list of options.
- Around one in ten (13%) respondents correctly identify that a green energy tariff relates to certificates that the energy source is renewable, under Ofgem's current accreditation framework.
- While nearly half of respondents (47%) want to know more about the sources of green energy, just one in five (22%) agree that information about their tariffs is clear and transparent enough to help them make a decision.

Overall, trust in market actors is low for advice and information on sustainable purchases.

- At most, less than a third (31%) of respondents trust consumer bodies for useful advice and information on purchasing sustainable items or making environmentally-friendly choices.
- Trust levels fall to less than a quarter (23%) for the government and to just 14% for energy companies. 14% of respondents also do not trust any source.

Lower-income consumers (C2DE) are especially distrustful of green goods, and will unlikely be helped by informational remedies

C2DE respondents are less likely than ABC1 respondents to correctly identify what a green energy tariff means, under Ofgem's current accreditation framework.

- Nearly half (47%) of C2DE respondents say they do not know enough to decide what a green energy tariff is out of a list of options, compared to a third (32%) of ABC1 respondents.
- A greater percentage (14%) of ABC1 respondents also recognised the current definition of a green energy tariff (related to matched certificates of origin) compared to C2DE respondents (11%).
- Respondents in social grade C2DE (42%) are less interested in knowing the specific energy source of their tariff, compared to ABC1 respondents (51%).

Informational remedies are unlikely to be beneficial where levels of trust are already low.

- C2DE respondents (18%) are eight percentage points less likely to agree that information on green energy tariffs is clear or transparent enough to make a decision, in comparison to ABC1 respondents (26%).
- Yet, C2DE respondents (19%) say they do not trust *any* source for useful information and advice at nearly twice the rate of ABC1 respondents (11%). Notably, just 18% of C2DE respondents saying that they trust public bodies for helpful advice and information when making environmentally friendly purchases or choices, compared to 27% of ABC1 respondents.

Building consumer trust and addressing misleading environmental claims

Market theory would suggest that, based on consumer demand for green products and services, the market would deliver transparent, climate-conscious businesses that consumers are able to trust solely and sufficiently. In practice, independent bodies and regulators exist as one of the most important tools to make markets fairer and protect consumers. Given the prevalence of greenwashing concerns, and the risk this poses to the Net Zero agenda, regulators should take greater action to address where consumers are misled.

Improving the transparency and clarity of the information provided by businesses about their green products and services is an important mechanism for helping consumers to make environmentally conscious decisions, as well as boosting consumer trust. While there is an appetite among – predominantly socio-economically advantaged – consumers for more information on the environmental benefits of green goods, the SMF is sceptical of how much more information suppliers, regulators, and policymakers can expect consumers to engage with, digest, and understand.

Informational remedies alone place greater responsibility on consumers to commit time and resources to becoming informed enough to make a decision that they are content with. For more vulnerable or disengaged consumers who may have time constraints or even cognitive load constraints arising from poverty, the responsibility of information may be cumbersome and unfair. As a result, greater regulatory intervention will be necessary to protect consumers from greenwashing.

A clear kitemark for green energy tariffs

The challenge of addressing greenwashing of green energy tariffs lies in the accreditation framework of certificates of origin, which is now 18 years old. Where certificates can be sold separately from the energy that produced them, some suppliers are able to market '100% renewable' tariffs simply by purchasing solely certificates for renewable energy, without the energy itself. This framework also does not recognise or reward suppliers that are genuinely investing in UK renewable energy generation. Instead, it applies a blanket badge to certificate-holding suppliers, which can be misleading for consumers looking to contribute to a cleaner energy system.

Recommendation – A new Olympic medal-style badging scheme for green energy tariffs

Ofgem should move urgently to create a new simple badging scheme for renewable energy tariffs. Key lessons learned from previous unsuccessful schemes should be applied. Where the regulator identifies varying degrees of environmentally beneficial practices, the badging scheme should convey this in a Olympic medal-style ranking of Bronze, Silver, or Gold to empower consumers with sufficient information that is easy to digest and understand.

Support and oversight for price comparison websites

Price comparison websites (PCWs) have become fundamental to the functioning of the energy retail market, providing consumers with digested, simple ratings to help them choose a tariff. Although, PCWs also have the potential to damage consumer trust in this market, if they are found to be promoting misleading information about green goods. We welcome the recent call for evidence on third party intermediaries in the energy market from BEIS, which the SMF has engaged with as part of this research process. If the consultation finds that there is potential for consumer harm or that consumers are harmed by the actions of PCWs in the energy market, then we expect that Ofgem should gain additional regulatory powers to oversee PCWs. As part of this, Ofgem should ensure that all PCWs in the energy market are benchmarked against a fair green standard, such as the new green energy tariff accreditation scheme recommended in this report.

Recommendation – Consider an expanded remit for Ofgem to include Price Comparison Websites

Based on the findings of BEIS' investigation into third party intermediaries in the energy market, the government should consider expanding Ofgem's regulatory powers in order to oversee PCWs, beyond the promotion of a voluntary code of conduct.

Long-term reform of the energy market

Building a more mature consumer market for renewable energy may mean creating the conditions for businesses to better respond to market forces and to incentivise greater levels of private investment and innovation over the long-term.

Currently, the Contracts for Difference (CfD) scheme means that many private renewable projects are supported by government contracts to provide generators with certainty of returns. Since 2015, the CfD scheme has successfully provided generators with government-backed price stability to deliver renewable generation at scale cost-effectively. As the renewable energy market has since developed and matured, Energy Systems Catapult suggests that industry is now better placed to manage market risks.

As a result, ESC recommend that the project-specific support mechanism of CfDs is replaced with system-wide decarbonisation policy mandate to incentivise greater market innovation and investment. While we do not take a view on this specific policy, we are cautious that looking ahead, long-term use of CfDs in a mature market may risk serving as a ceiling on, rather than incentive for, innovation and increased private investment.

This is of direct relevance to our focus here on consumer trust in green energy products. In the long term, consumers must be able to have confidence that their purchasing choices are driving industrial activity. Consumers opting for the greenest tariffs should know they are creating stronger incentives for suppliers to provide genuinely green products.

Reaching the Government's 2030 targets for offshore wind will require even greater levels of capital investment over the 2020s, therefore it's likely that a degree of public investment in renewables will still be required. We do not suggest that public investment in renewable energy should be entirely removed. Rather we suggest that policymakers should be considering the nature of government support and policy in the renewable energy market beyond the 2030 target.

Recommendation – Assess the future of the Contracts for Difference scheme

Policymakers should consider whether an alternative mechanism should replace CfDs in the long-term (beyond the 2030 offshore wind targets) to incentivise and drive private investment in a more mature renewable energy market. Any new mechanism considered should give investors transparency and predictability, and consumers protection from suppliers that may pass on undue costs or make unsubstantiated or misleading claims about their investments. Additionally, policymakers should consider how to ensure transitioning between CfDs and any new mechanism does not create a gap or hiatus in investment.

CHAPTER ONE – INTRODUCTION

Decarbonising the UK economy and reaching net zero emissions is one of the most significant political, social and economic challenges of the 21st Century. Doing so requires action, not just in the form of political leadership, policy intervention, and market innovations, but also from *people* to make greener and more sustainable choices in their every-day lives.

Much of the progress towards reducing emissions in the UK thus far has focused on the production side – the Department for Business, Energy and Industrial Strategy has been crucial to cleaning up the power sector through investment in renewable energy infrastructure, for example.² While this progress should be celebrated, it has largely occurred behind the scenes for the majority of the population and outside of what one might consider a ‘proper’ consumer market – that being, one where consumer demand and purchasing power drive industry decisions.

In order to make further progress towards Net Zero and ensure a just transition, many have also argued for a consumption-focussed approach: for instance, Sir Dieter Helm.³ This approach places people and consumers, and the choices we make, at the heart of climate action alongside policy to reduce our own carbon footprint and to drive cleaner, more sustainable practices across a range of sectors, such as food, transport, clothing, energy, and more.

With public concern about climate change on the rise, the vast majority of the public (92%) say they have already made at least one behaviour change to be more environmentally conscious, such as reducing food waste or energy usage, and choosing to walk, cycle or use public transport.⁴ Over three in five (62%) people said they do at least three from a list of such behaviours.⁵ Additionally, evidence from the Competition and Markets Authority also suggests that consumers are increasingly demanding greener, more sustainable products and services.⁶ However, there are still many obstacles to shopping sustainably, such as the cost and convenience of green products and services. There are also challenges posed by the complexity of “green” options or a lack of information on what makes them ‘green’. In some cases, for example, consumers may have no choice but to opt for the polluting option because it is cheaper; ensuring green markets are accessible for all will be critical for sustained climate action.

This report focuses on another obstacle to sustainable consumption: **greenwashing**.

Greenwashing is broadly understood as giving a false impression or providing misleading information that a company or their products and services are more environmentally sound than they are.

According to the CMA, these claims may create a misleading impression about an individual good, or relative to a competitor or previous versions of a product or service.⁷ For example, a business may market a product as being an updated, ‘greener’ or ‘cleaner’ version of their own products, or their competitors’ products.

This practice has become increasingly commonplace, as various companies attempting to capitalise on consumers’ desire to shop sustainably. As part of a global

review, the CMA found that as many as 40% of green claims made online could be misleading in some way.⁸ Similar concerns have also been raised in the energy retail market, which is the primary focus of this report.

Misleading claims are a problem for several reasons. In general terms, they risk eroding consumer trust in products and services. But in the context of climate change, they also risk undermining trust in the wider policy agenda of decarbonisation. If consumers are made to feel misled by the green products that they purchase, there is a risk of a political backlash towards climate action and the net zero agenda. This is increasingly plausible given the concerns already raised by politicians such as Steve Baker MP⁹ over the decarbonisation of home heat - just as the SMF warned in a previous report from this project, *Boiler Alert*.¹⁰

In November 2020 and April 2021, the Social Market Foundation hosted two roundtables with politicians, policymakers, green energy experts and industry professionals to discuss the challenges of maintaining consumer trust in green goods and addressing misleading environmental claims. A consumer survey was also commissioned from Opinium as part of this study, using a nationally representative sample of 2,004 UK adults from 10th to 24th March 2020 as well as an online 'pop-up community' of 24 participants to gain richer insights through qualitative methods. This report summarises the key themes that emerged from the SMF roundtable in the following chapters.

- **Chapter two** - explains the current challenge of greenwashing in the UK energy retail market.
- **Chapter three** - presents the current state of public understanding and attitudes towards green energy tariffs and sustainable consumption.
- **Chapter four** - outlines elements of consumer trust and why trust is important for policymakers.
- **Chapter five** - explores who we should trust and what works building consumer trust in the renewable energy market.
- **Chapter six** - looks at how the wider regulatory framework of consumer markets could address misleading environmental claims.

CHAPTER TWO – UNDERSTANDING GREENWASHING IN THE ENERGY RETAIL MARKET

The UK energy system is in transition, with more electricity generated from renewable sources than fossil fuels for the first time early last year.¹¹ Along with the transition of power, the energy retail market has also seen further shifts with more suppliers entering the market.¹² Historically, energy users may have looked to save money when choosing a tariff; now, many consumers are also considering whether their tariff contributes to a new clean energy system.¹³ As a result, there has been an explosion of ‘100% renewable’ tariffs, also known as ‘green energy tariffs’ in recent years to capitalise on this demand.¹⁴

Which? research found that more than half of the 355 tariffs on sale in June 2019 claimed renewable electricity credentials, compared to 9% three years prior – a market share increase of over 450%.¹⁵ Additionally, the price comparison website *comparethemarket.com* found that 81% of their household users switched to a green energy tariff in 2020, compared to 43% in 2019.¹⁶

There is a growing concern across the industry that not all green energy tariffs are as environmentally sound as they may appear.¹⁷ The energy regulator Ofgem and the Energy Ombudsman have also raised concerns as to whether energy suppliers are being transparent enough with the information they provide to consumers to support their ‘100% renewable’ claims.¹⁸ The information needed to support the credibility of these tariffs is often complex and is explained in further detail in Box 1. Ofgem’s Decarbonisation Action Plan published last year committed the regulator to undertaking work to ensure consumers are not misled by supplier’s claims around green tariffs.¹⁹

The presence and extent of greenwashing in the energy market is a concerning matter both on the demand and supply side, as well as for political and even moral reasons. Not only is it wrong to mislead people into parting with their money, but where energy users become aware of this, there is a risk of damaging consumer trust in the product, the supplier, and the market overall. The decarbonisation of energy is critical to meeting our Net Zero targets. Greenwashing threatens to undermine this as consumers who feel conned may become disillusioned with renewable energy and with the climate transition more broadly. That, in turn, can have political consequences, because people’s feelings about energy supplies can become highly salient to politicians; the Coalition Government, for instance, retreated from several environmental commitments in the face of perceived public anger about on-bill tariffs contributing to higher prices. (This process was memorably captured in a Sun headline quoting the then-prime minister as promising to “Get rid of the green crap”²⁰).

On the supply-side, misleading green energy tariffs may mean that the revenue from an energy user’s bills is not being used to operate or develop genuinely renewable sites. Without crucial investment in renewable infrastructure and generation, there is a risk of slowing the decarbonisation of the grid. Research from Aurora Energy Research last year found that meeting the target of 40GW will require nearly £50 billion

in capital investment, twice as much as the estimated amount invested in offshore wind during the 2010s.²¹

Greenwashing could also hamper fair competition within the energy retail market, where suppliers who are not investing in UK renewable energy infrastructure are able to benefit from the same marketing benefits of using green tariffs. While these are all important challenges, this report is largely focused on the risks of damaging consumer trust, since securing public consent and support for the Net Zero agenda is the central theme of this project.

As the UK continues to progress with decarbonisation and the closer we get to reaching our climate targets, energy generated from renewable sources will comprise a greater proportion of the energy mix. The logical endpoint of this process is that the notion of utilising green energy tariffs to drive investment in expanding renewables generation and provide additionality for consumers will eventually become obsolete, since all generation will be from renewables and therefore all tariffs will be “green”. But in the meantime over the next decade or two, bringing energy users, voters, and people onside to be a part of the climate transition will be essential to ensuring the UK energy system reaches Net Zero. That means addressing misleading environmental claims should be an urgent priority for any government that wishes reach its legislated targets with public support.

The recently published BEIS Energy Retail Market Strategy set out the Government’s short, medium, and long-term key goals and actions for the 2020s. A commitment to “ensur[ing] consumers are accurately informed about their personal contribution to Net Zero, with an initial focus on ‘green tariffs’” was included as a medium-term goal from 2024 onwards.²² The publication also recognised greenwashing and the importance of consumer trust in green tariffs, particularly for the goal of stimulating additional investment in low carbon generation. The Government’s recognition of these challenges is welcome, however, delaying action on green tariffs until 2024 will likely make it harder for the government to reach its climate targets for offshore wind by 2030, given the significant amounts of additional investment needed to boost capacity. We welcome the recently-launched consultation from BEIS on the transparency of energy products, including green energy tariffs and hope that it serves as an opportunity to consider whether action should be taken before 2024.

Box 1: Green energy tariffs and greenwashing explained

The landscape for green energy tariffs and greenwashing is complex, meaning that while environmental claims may be misleading, they may not be unlawful.

The generation of renewable energy is supported by a certification scheme. Ofgem issues power generators with one certificate of origin per megawatt hour (MWh) of eligible energy that is produced from a renewable source, such as wind or solar. These certificates are known as **Renewable Energy Guarantees of Origin (REGOs)**.

REGOs and the renewable electricity itself can be sold separately. This has led to a secondary market whereby REGO certificates are traded independently. Some suppliers, who do not generate their own power but buy their electricity on the wholesale market, may purchase REGOs or similar European certificates (GoOs), which are then recognised by Ofgem and legal to market as 100% renewable.

Power purchase agreements (PPAs) reflect long-term contracts between a supplier and a generator, which provide direct investment in renewable generation energy sites. Tariffs backed up by PPAs are largely considered to be legitimately green as they contribute to the generation of new renewable energy to decarbonise the grid. In comparison, solely-certificate-backed tariffs do not provide as clear direct investment in generating new renewable energy, and are considered to be greenwashing by much of the sector.

In a recent analysis of energy suppliers, the Baringa consultancy found that around a third of electricity supplied through tariffs marketed as green or renewable in the UK is not backed up by either PPAs or certificates.²³ Roundtable contributors from across the sector warned that while some greenwashing occurs by claims that are simply not true, greenwashing is also enabled by this accreditation framework and the complexity of tariff information which makes it harder for people to understand.

CHAPTER THREE – PUBLIC ATTITUDES

Our first report in this series, *The virus and the climate*, highlighted growing concern about climate change among the public, as well as support for a government that would take climate action.²⁴ People are also increasingly interested in taking action in their every-day lives, such as by buying greener products – the CMA found that more than half of UK consumers now take environmental considerations into account when shopping.²⁵

SMF-commissioned Opinium polling was conducted in early-2020, prior to the Coronavirus pandemic, on public attitudes to green energy tariffs and sustainable consumption. In addition to the survey, Opinium conducted an online ‘pop-up community’ of 24 participants to gain richer insights through qualitative methods. Although the public attitudes research was conducted over a year ago, we are confident that the pandemic would not have had statistically significant effects on the findings.

Public support for green energy tariffs

Across the online pop-up community, there was a broad consensus that the public are supportive of the introduction or increase of green energy tariffs. It was often suggested that this would be the easiest way to contribute to Net Zero targets without placing too great of a cost burden on consumers. The following are quotes taken from participants:

“[Green energy tariffs are] worth implementing. This would be as simple as just sourcing an energy supplier that has a green energy tariff – these are becoming more common. Energy companies could offer incentives to switch to an energy tariff.”

35-54 years old, Yorkshire and the Humber

“It gives a signal that, though green sources may cost a bit more at present, they are a realistic option with huge side-benefits.”

55+ years old, Yorkshire and the Humber

“I am already with Ecotricity, which costs me about £100 or more a year extra, but I believe I am supporting the right company.”

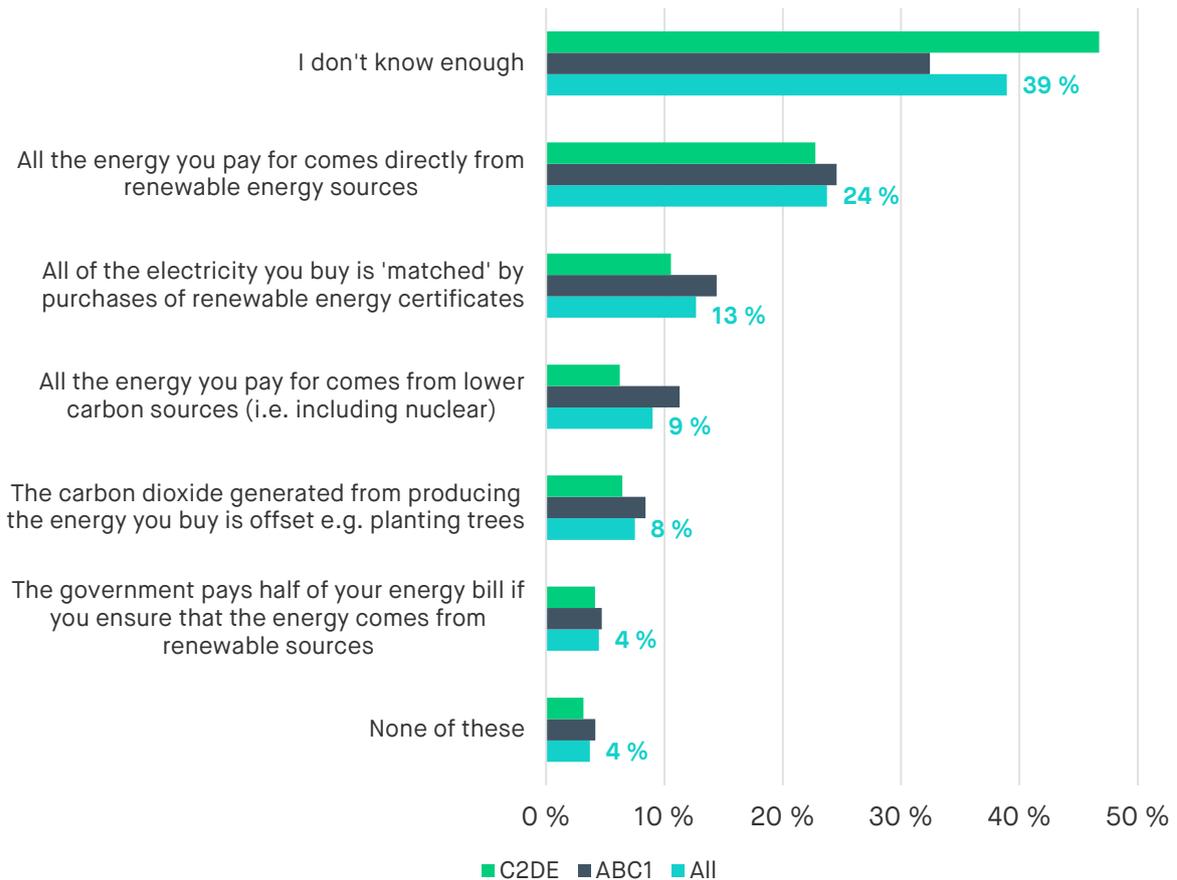
35-54 years old, South East

These findings echo similar research conducted by Good Energy, reporting that 65% of people agree that they would choose a green energy tariff if it supported the move to a new, clean energy system.²⁶

Public understanding of green energy tariffs

The energy system is a complex landscape to navigate for the average consumer, particularly given the nuances of tariff accreditation and certificates of origin. While there is general support for green energy tariffs, we treat that with relative caution as there is considerable confusion and lack of understanding among the public around what a green energy tariff is.

Figure 1: Public understanding of what a green energy tariff is, as a % in agreement



Source: SMF analysis, Opinium

The most frequent response to the question “what is a green energy tariff?” was that respondents do not feel as though they know enough to decide, with nearly two in five (39%) reporting so out of the list of options. This figure rises to nearly half (47%) among those in social grade C2DE, in comparison to less than a third (32%) among respondents in social grade ABC1. This may reflect the time and cost barriers associated with sustainable consumption.²⁷

Around a quarter (24%) of respondents say that a green energy tariff means that the energy paid for by a consumer comes directly from a renewable source. While this definition appears reasonable, it is not possible for suppliers to change the energy that flows directly to one’s home simply based on the tariff they are on. Instead, by paying for a green energy tariff, consumers are signalling to energy companies to invest in renewable generation that will increase the proportion of renewables within the total

energy mix. Over time, the energy coming directly to the consumer should then, in theory, be increasingly green.

As noted in Chapter two, the current Ofgem framework of accreditation for green energy tariffs is based on the presence of certificates of origin, despite the highlighted limitations of certificate-only based tariffs. This means that just 13% of the public correctly identified the definition of green energy tariffs as being related to these certificates, as per Ofgem's current accreditation framework. A similar pattern across social grades is present here too, whereby a greater percentage (14%) of ABC1 respondents recognise this definition, compared to those in C2DE (11%).

The remaining one in five (21%) of respondents believe that they related to several other definitions, from low-carbon non-renewable sources (9%), carbon offsetting (8%), and government support (4%).

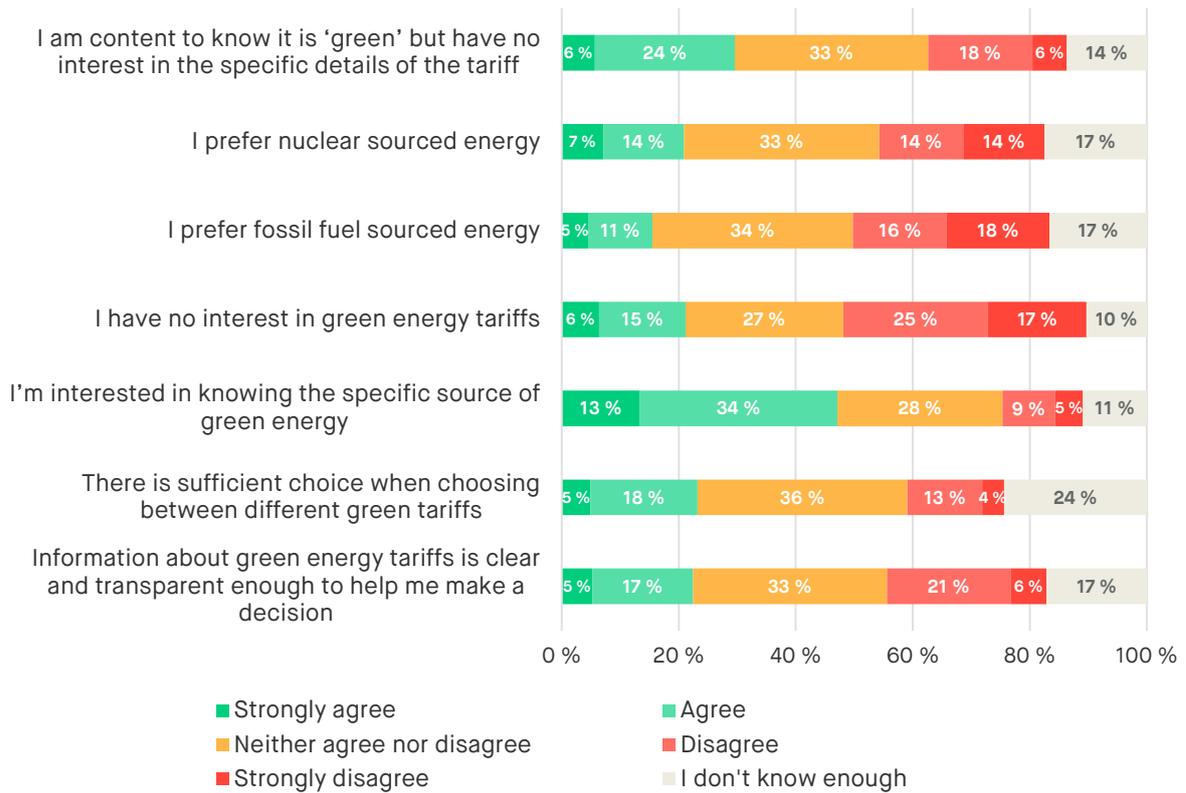
Given the complexity of the energy system and low public understanding of what constitutes a green energy tariff, it is unlikely that most consumers are able to identify the nuances of suppliers' greenwashing practices. Further polling from ScottishPower showed that three in five (60%) respondents did not understand the difference between renewable energy that was purchased directly from generators versus solely through certificates of origin.²⁸

Public attitudes on the source of green energy

It is encouraging that there is a relatively strong interest among the public in the source of green energy – as shown in Figure 2. Across the range of statements, the greatest net support (“agree” or “strongly agree”) is shown for wanting to know more about where the green energy related to their tariff comes from, reaching around half (47%) of respondents. Disaggregating this data by social grades, respondents in social grade ABC1 are more interested (51%) in knowing the specific energy source, compared to C2DE respondents (42%). These findings suggest that the level of engagement with green energy and related tariffs may be correlated to one's income, which supports findings that green price premiums can be a barrier to participating in sustainable consumption.²⁹

Additionally, the findings indicate there is a significant minority (30%) of respondents who are content with knowing their tariff is green but have no interest in the specific details of the energy source. This is unsurprising, given the complexity of the system and the accreditation framework. It is conceivable that a proportion of the public are instead content placing trust in suppliers and regulators, for example, to act in the best interest of consumers and the environment, without needing to understand the complex detail themselves. This raises important questions around the risk to consumer trust if the public come to feel misled by suppliers or unprotected by regulators.

Figure 2: Public attitudes on the sources of green energy, %



Source: SMF analysis, Opinium

Transparency of energy suppliers and consumer trust

For the half of the public (47%) that wish to better understand the sources of their energy, transparent information about green energy tariffs is critical to ensure consumers are not misled. However, Figure 2 indicates that this information could be clearer to help energy consumers make a decision. Just one in five (22%) respondents agree or strongly agree that information is clear and transparent enough, while over a quarter (27%) of respondents disagree or strongly disagree with this statement. Between social grades, ABC1 respondents (26%) are eight percentage points more likely to say they agree that information is clear or transparent enough in comparison to C2DE respondents (18%). This finding suggests that across the sector, actors such as suppliers, regulators, consumer bodies, and price comparison websites, should consider whether the information they provide to consumers is accessible for all.

Responses from the online pop-up community indicate that the transparency of energy suppliers is also important to consumer trust; however, there are mixed opinions as to whether suppliers are being transparent about their green energy tariff offers.

Participants were also asked to indicate the extent to which a) they trusted that energy companies offering green tariffs are truthful about their environmental claims, and b) energy companies supply information about what makes their products green. The findings suggest that the more information energy suppliers give about what makes their tariffs green, the higher the level of consumer trust. However, the qualitative

responses indicate that building or maintaining consumer trust is more complex than just informational remedies.

On the one hand, participants who reported trusting their energy suppliers also said that they are kept informed and provided with a wealth of information – as highlighted in the quotes below. However, on the other, it was also suggested that consumer trust is partly presumed on the basis that the energy sector is highly regulated, which would hold misleading or dishonest suppliers to account and prevent circumstances in consumer trust may be damaged – as seen in the final quote from the Scottish 55+ year old. These findings raise important questions around who consumers should trust and who is responsible for maintaining that trust (see Chapter five).

“I am with Bulb who offer 100% renewable energy, I trust them and have never had a reason not to. They keep us informed of everything they are doing and I'm happy with them. I can't comment on other companies but would like to hope they are the same.”

55+ years old, East Midlands

“I have 100% trust with regards to their green credentials. All the main providers appear to have "upped their game" with regards to providing the consumer with a wealth of information and continue to reinforce their commitment to green sustainability.”

18-34 years old, East of England

“I do generally trust these companies to tell me what proportion of their output is from "renewable" sources. They are part of a fairly highly-regulated industry and I think the risk of being found out by the regulator would be significant if they were being dishonest.”

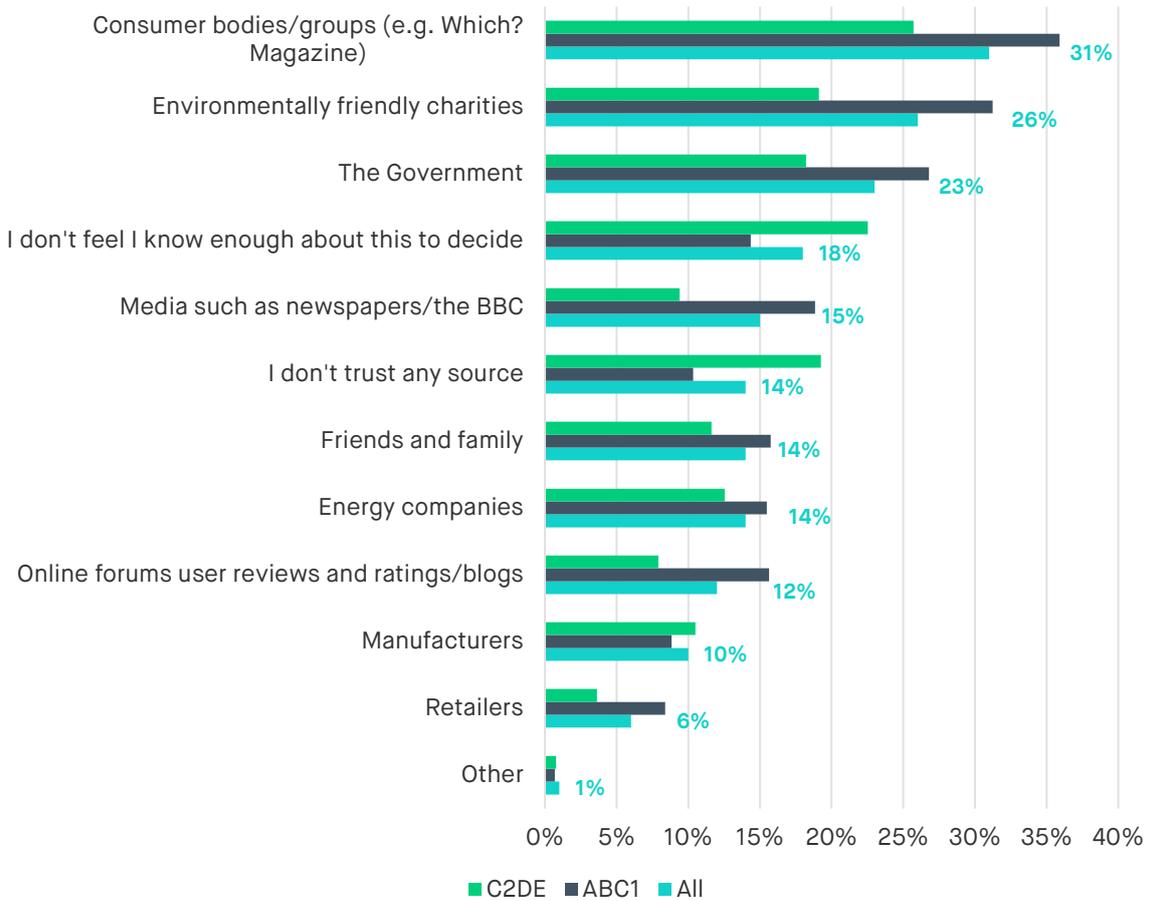
55+ years old, Scotland

Who is trusted for advice and information?

Building and maintaining trust in a consumer market requires a coalition of actors who inform and influence people's decisions on the products and services they buy – this ranges from companies to independent bodies and even social networks.

Respondents looking to purchase sustainable items or make environmentally friendly choices – more broadly than just green energy tariffs – indicate that they trust consumer bodies (such as Which? or Citizen's Advice) more so than other actors, as seen in Figure 3. Although notably, overall trust levels are relatively low – at their highest, less than a third (31%) of respondents trust consumer bodies for useful advice and information. Notably, levels of trust fall to less than a quarter (23%) for the government (including independent regulatory bodies) and to just 14% for energy companies.

Figure 3: Who is trusted for useful advice and information on purchasing sustainable items or making environmentally friendly choices?, by social grade, %



Source: SMF analysis, Opinium

In other markets, such as financial services, it was suggested by roundtable contributors that family and friends are more highly trusted for information on purchasing products and services. By comparison, family and friends rank relatively low in our polling overall. It was suggested that this was due to the complexity and lack of understanding around what ‘green’ means in practice. Overall, manufacturers (10%) and retailers (6%) are trusted the least for helpful information for making environmentally conscious decisions.

The difference in trust levels between social grades is stark – as seen in Figure 3. The findings show that people in social grade ABC1 place more trust in all but one of the proposed sources of information about green products than respondents in grades C2DE do. (The one exception is manufacturers, where lower socio-economic status respondents express marginally more trust than ABC1 peers, but in neither group did trust exceed 10%.)

Most notably, nearly twice as many respondents from lower social grades (C2DE) (19%) say that they do not trust *any* source, compared to those from social grade ABC1 (11%). Additionally, the gap between social grades for levels of trust in the government spans nine percentage points, with 27% of ABC1 respondents and just 18% of C2DE

respondents saying that they trust public bodies for helpful advice and information when making environmentally friendly purchases or choices.

These findings raise concerns around the extent to which those from lower socio-economic status groups could fall prey to greenwashing and then come to feel misled by green claims, raising the risk of a political backlash against Net Zero.

To recap, C2DE respondents are less likely to:

- correctly identify what a green energy tariff means under Ofgem's current accreditation framework;
- want to know more about the sources of green energy;
- trust anyone for useful information and advice for making sustainable decisions, including consumer bodies, environmental charities, the government, and energy suppliers.

Where greenwashing is not addressed, and consumers become aware of being misled, there is scope for political backlash, particularly from lower-income voters, who may feel disillusioned and exploited by claims that climate action is an unalloyed good. This risks damaging consumer trust in green products and services, and derailing the political success of the broader the Net Zero agenda.

It is worth noting that there is no single common experience for individuals as consumers or citizens when making environmentally conscious decisions in their own lives. While the data is analysed with regard to social grade, experiences of consumer trust and sustainable consumption more broadly will also likely vary by a range of characteristics, such as age, gender, digital exclusion, and vulnerable circumstances. Women, for example, are more likely than men to do the food, clothing, and essentials shopping for the home – it is therefore likely that a gendered approach to sustainable consumption should be considered, however this is not within the scope of this report to examine.³⁰

The following chapters of the report primarily draw on discussion points that were raised within two roundtable events hosted by the SMF in November 2020 and April 2021 with politicians, policymakers, green energy experts and industry professionals.

CHAPTER FOUR – HOW IMPORTANT IS TRUST?

Trust is essential to the success of any relationship, including between consumers and businesses. Misleading claims about the details of a product or service have the potential to damage this relationship by undermining consumer trust. In most consumer markets, this challenge of building and maintaining consumer trust is largely the responsibility of the business, rather than policymakers. Market theory would suggest that the market itself would incentivise and reward transparent, trustworthy businesses because consumers trust them enough to shop with them.

However, our research with various public, private, and consumer-advocate stakeholders suggests that the risk of greenwashing could have far greater implications which should concern the Government and regulators. This chapter explores what we mean by trust and why it is important to both markets and policymakers.

What is meant by trust?

Trust, in the context of consumers' decision to purchase green products and services, such as a green energy tariff, has multiple elements to it. Across the literature, this is broadly defined as "personal" and "system" trust. Personal trust is based on personal relationships, such as between an energy user and their supplier. System trust is based on institutions, such as trusting regulators or the market to keep unscrupulous businesses in check.³¹

Roundtable contributors also noted similar distinctions in consumer trust, echoing that across a range of markets, consumers need to trust:

- that the product or service has important benefits, such as for the environment;
- the information that businesses provide is accurate;
- the certification process and standards for a product or service, such as certificates of origin (REGOs) or the term 'organic';
- the business to be effective and competent;
- the motives or intentions of a business to act ethically;
- the regulatory framework to also act in the best interest of consumers.

While all of these components of trust are important to sustainable consumerism, this report largely focuses on trust in information, certification processes and regulation. Where elements of consumer trust are undermined, such as by misleading marketing and greenwashing, there is a risk of damaging key relationships that not only underpin markets for green goods and services, but for democratic engagement with net zero more broadly.

Why is trust important for policymakers?

The broad consensus across both roundtables was that maintaining consumer trust in green goods and services is extremely important for two reasons: first, building

'proper' consumer markets for sustainable products, and second, ensuring the public continue to support the UK transition to a net zero economy.

Developing 'proper' consumer markets for green goods

Markets are the main means of exchange and distribution of goods and services in our economy. Where consumers spend their money, and on what products, sends a market signal to businesses for how they should act. While currently there is latent permission from the public for the government to act, it is increasingly clear that reaching a zero emissions, more environmentally-friendly, sustainable economy will require a modal shift away from a solely production-based emissions approach, to also include consumption-based emissions.³² This means encouraging people to make environmentally conscious decisions in their daily lives, such as shopping more sustainably.

Some roundtable contributors suggested that significant government intervention to reduce carbon emissions, by way of sticks or carrots, will not be desirable in the long-term for sustaining climate action. Instead, it will be necessary to support the development of 'proper' markets for green products and services that are self-sustaining through consumer demand. However, given that to consumers renewable energy looks and works no differently than fossil fuels in their home, there is a challenge for consumers in identifying and verifying the green attributes of such products themselves. As a result, consumer trust is often a prerequisite for establishing these types of markets.³³ Misleading consumers on the environmental benefits of products, such as green energy tariffs, risks undermining consumer trust in existing and future markets. Independent regulators play an essential role here to ensure markets are fair and protect consumers.³⁴ Without an effective market, the expansion of renewable energy infrastructure and progress to decarbonising the energy grid may be in jeopardy.

Policymakers and politicians should therefore have a key interest in ensuring that trust is not damaged by poor business practices, such as greenwashing, if they are to not only reach Net Zero by 2050 but maintain a green economy thereafter.

Political buy-in for the net zero agenda

Recent media coverage on the decarbonisation of home heat has demonstrated how fragile political support for the Net Zero agenda could be if people feel as though climate action is unfair.³⁵ This is particularly the case where lower-income voters may feel misled by the costs or benefits of climate policy and green goods. Political backlash such as this has the potential to significantly damage the Net Zero agenda.

Trust is central to meeting legislated climate targets – not just consumer trust in goods and markets but trust in the policy framework that is mandating the public to make changes to their homes and lifestyles. Roundtable contributors echoed this view, as noted by one contributor: *"Trust is essential to winning the Net Zero argument"*. It is therefore critical that policymakers work to mitigate instances where trust in climate action is undermined such as by greenwashing practices, particularly for low-income voters who are more at-risk of being misled (see Chapter three).

One parliamentarian present at the roundtable recognised and echoed this political risk:

“Consumer trust and transparency in green tariffs – and more widely in the challenges of delivering our climate action – is critical in order to have everyone on the train with us, if we are to succeed [with net zero].”

CHAPTER FIVE – WHAT WORKS FOR TRUST?

Where and how can energy consumers get the reassurance they need to trust that the green energy tariff they pay for is a) what they think it is and b) delivering benefits to the environment? This chapter draws on SMF-commissioned polling, roundtable discussions and literature to evaluate different mechanisms for building and maintaining consumer trust in green energy tariffs.

Who should consumers trust?

Market theory would suggest that, based on consumer demand for green products and services, the market would deliver transparent, climate-conscious businesses that consumers are able to trust solely and sufficiently. However in practice, roundtable contributors recognised that such an approach does not reflect the type of market economy we live in, where independent bodies exist to regulate bad business practices and protect consumers. It would therefore be incongruent to expect consumers to place trust in companies alone.

Regulators are a central focus of the SMF's research since they are one of the most important tools that can be used to make markets fairer and protect consumers.³⁶ The multifaceted nature of consumer trust, outlined in Chapter Four, indicates that the expectation of effective regulation is critical to consumer trust in markets. Consequently, roundtable contributors broadly agreed that there is a greater role for independent bodies, such as regulators, to play as trusted authorities to address instances of greenwashing – explored later in this chapter.

Who consumers trust also largely depends on the nature of the market and who consumers engage with. It was noted by roundtable contributors that a consumer journey is not always straightforward from supplier directly to consumer. Instead, some consumers may interact with intermediaries. In the energy retail market, for example, price comparison websites (PCWs) play a considerable role in the supply chain of marketing and selling energy tariffs. One contributor echoed this point:

“The nature of the retail market is that consumers increasingly don't necessarily buy energy directly from suppliers. The customer journey isn't necessarily always about the supplier and that's where price comparison sites and similar become very important.”

The growth of PCWs is generally thought of as being in response to consumer demand for help to understand their tariff options, and saving time navigating the market and switching suppliers.³⁷ As a result, PCWs have the potential to be seen as an effective tool for consumer empowerment and trust, which can help to rebalance traditional asymmetries between consumer and supplier.³⁸ However it is worth noting that some analysts, such as Miklos Antal of the University of Leeds, have warned that PCWs in their current form may be misleading consumers further.³⁹

Addressing misleading environmental claims and building consumer trust in markets for green goods, such as green energy tariffs, will likely require a joined-up approach of action across suppliers, regulators, and intermediaries like price comparison websites.

What works for building trust in green energy tariffs?

Roundtable contributors discussed to what extent different mechanisms could work for building consumer trust in the renewable energy retail sector. The mechanisms discussed below rely on varying degrees of intervention for policymakers, from informational remedies to setting new standards, drawing on examples of good practice in other consumer markets for green goods.

Supplier naming and shaming

Starting with a relatively low degree of intervention, roundtable contributors discussed the scope for energy suppliers to take action by calling out the misleading practices of other businesses.

It was noted that the presence of greenwashing in a market creates the conditions for unfair competition, particularly hindering those businesses that are working to invest and expand renewable energy infrastructure in the UK. Energy sector representatives at the roundtable expressed a frustration that suppliers who are not contributing to the sector's path to Net Zero should be able to capitalise on consumer demand for green energy.

Some suppliers with genuinely 100% renewable energy tariffs that invest in new renewable generation, such as Good Energy and ScottishPower, have publicly criticised greenwashing practices and attempted to explain the nuances of certificates of origin (REGOs) to the public.⁴⁰ However, they have refrained from identifying competitors they believe are not living up to their green claims. This is consistent with other UK consumer markets where suppliers generally decline to criticise one another in public.

Some contributors at our roundtables suggested that, given the importance of trust and risks of greenwashing, energy companies should go further to name and shame the suppliers who do not have sufficient evidence to support their '100% renewable' tariff claims, such as where certificates have not even been purchased.

Other contributors disagreed with this approach noting that while the market for renewable energy is growing, perceived in-fighting from suppliers could damage consumer trust in the market as a whole. Where consumers feel as though they do not know who or what to trust, they may become disillusioned with renewable energy and green products more broadly, risking public support for climate action.

The SMF supports calls from suppliers for greater transparency across the energy market, but such action should avoid being perceived as divisive or undermining the credibility of renewable energy more generally. Instead, contributors discussed more effective interventions from regulators and policymakers to protect consumers from being misled and support fairer trusted markets for green goods, outlined below.

Informational remedies

One of the key challenges with green goods, particularly in the energy market, is around a lack of public understanding about what it means to be green. This is made worse by complex, confusing information. This is demonstrated in our findings, wherein nearly two in five people said they do not know what a green energy tariff is

and over a quarter of respondents feel that information available to them is not clear. Across other consumer markets, the CMA's recent investigation into misleading environmental claims also found that many consumers are confused by the environmental information provided about goods and services, and that consumers struggle to compare the environmental impact of different products.⁴¹

Improving the transparency and clarity of the information provided by businesses about their green products and services is an important mechanism for helping consumers to make environmentally conscious decisions as well as boosting consumer trust. While there is an appetite among – predominantly socio-economically advantaged – consumers for more information on the environmental benefits of green goods, the SMF is sceptical of how much more information suppliers, regulators, and policymakers can expect consumers to engage with, digest, and understand.

Informational remedies alone place greater responsibility on consumers to commit time and resources to becoming informed enough to make a decision that they are content with. For more vulnerable or disengaged consumers who may have time constraints or even cognitive load constraints arising from povertyⁱ, the responsibility of information may be cumbersome and unfair. One roundtable contributor echoed this point:

“Why should we ask consumers to pick and choose between sustainable products or not, or service provider that operates in line with Net Zero or doesn't? That places a lot of emphasis on consumers making the right choice. Consumer trust is important to taking people with us, but more needs to be done to stop polluting, non-sustainable products getting into the market in the first place.”

Our roundtable contributors broadly agreed that informational remedies alone would not be sufficient and greater action would be required by regulators, particularly in the case of the accreditation and marketing of green energy tariffs. One contributor highlighted the specifically complex nature of the energy system, suggesting that it would not be desirable to explain these details to consumers:

“The last thing we want to do is start explaining electrons and the entire electricity system and the way it flows through to consumers. I've been in the industry 20 years, and I still don't understand it so that to me is a lost cause.”

This was echoed by a representative from the energy regulator, Ofgem:

“Ofgem's own research finds that most consumers don't want more information in this space: there's only a small group that want to get into this level of detail.”

Previous evidence from the energy sector indicates that despite a competitive market for energy tariffs, many consumers did not take advantage of switching to save money but instead paid loyalty premiums, particularly those on lower-incomes.⁴² Despite

ⁱ See, for instance, the work of Anandi Mani at Oxford University: <https://www.smf.co.uk/events/poverty-cognition-cage-seminar/>

Ofgem’s encouragement that consumers should shop around, greater intervention was taken by way of the energy cap in 2019 to protect particularly vulnerable consumers from increasing energy tariffs.⁴³ It is evident that where disengaged, vulnerable consumers may be exploited or misled, greater regulatory intervention will likely be necessary. Applying the logic of the price cap to greenwashing suggests that more direct intervention from the state will be needed to deliver trust in green energy products.

Badging schemes

One of the ways regulators could reduce the informational burden on consumers and increase consumer trust is by introducing a simpler quality mark on green energy tariffs that consumers can recognise and trust.

Roundtable contributors drew on examples from other markets to demonstrate how simple, recognisable labels can enable consumers to more easily compare the environmental benefits of different products to make a decision. It was recognised that within the food industry, the term ‘organic’ is used to signal an environmental benefit to consumers.

“If you go into the supermarket and buy an organic apple, you as a consumer are not expected to understand the exact organic process or the farms that produced it, or to judge what an organic farm looks like from the packaging. The trust is related to that label of organic and the apple that it is stuck to, rather than just the label in and of itself.”

In the food industry, ‘organic’ is a protected and regulated label in accordance with standards set out by an approved, independent certification body through agricultural inspections.⁴⁴ This regulation oversees the supply chain of organic goods from farmers through to processors, importers, and marketers whereby the accredited label on the product that one buys is directly related to the process of its production. While there are still instances of greenwashing and misuse of the term ‘organic’, these claims are in violation of CAP codes and thus subject to action from the Advertising Standards Authority (ASA).⁴⁵

Roundtable contributors broadly agreed that a similar, simple label should be introduced within the energy sector:

“We need to come up with a simple standardised way of agreeing this is what qualifies us as being green and renewable. Stick the stamp on it, and if you’re buying it from that source, you know what you’re buying.”

“All the consumer needs to know is that if it’s got that mark on it, I can trust it – it’s certified, it’s checked and someone’s doing that for me. I don’t need to work out how it was made, where it comes from, or how the system works.”

To some extent, green energy tariffs already have an accreditation scheme of certificates of origin; however, evidence presented in this report suggests that this is insufficient in preventing greenwashing and is confusing for consumers to understand. In comparison to the food industry, the regulation and accreditation of green tariffs in the energy sector does not reflect a direct link from production to product, given the ability to separate certificates of origin (REGOs) from renewable energy. As noted in

Chapter Two, this has created a secondary market where suppliers are able to trade the accredited label of '100% renewable' independently from the energy they buy from the wholesale market and sell to consumers. This raises concerns for consumer trust if the regulatory framework, which is meant to protect consumers and ensure fair markets, actually enables some suppliers to mislead consumers on the extent to which they are contributing to the generation of renewable energy.

CHAPTER SIX – ADDRESSING MISLEADING ENVIRONMENTAL CLAIMS THROUGH THE REGULATORY FRAMEWORK

Across the UK regulatory framework, there are a number of separate regulators and public bodies involved in addressing misleading claims. In the energy retail market, for example, there are at least three: Competition and Markets Authority (CMA), Advertising Standards Authority (ASA) and Office of Gas and Electricity Markets (Ofgem), each with their own remit for action. While not a regulator, the Energy Ombudsman also plays a critical role in supporting energy consumers. Additionally, Ofgem's remit and the legislative framework it acts upon is set by the Department for Business, Energy, and Industrial Strategy.

Evidence from our roundtable discussions and stakeholder engagement suggests that where these remits differ and overlap in places, there is potential for misleading business practices to go unaddressed. Representatives from all of the bodies listed above expressed a recognition of the challenge and implications of greenwashing and a commitment to addressing it. However, it was noted that some representatives felt that the action they are taking is sufficiently in line with existing standards and remits, and that the responsibility for further action laid with other regulators or bodies. Effectively addressing misleading environmental claims within the energy sector and across other consumer markets will likely require a more joined up approach across the various regulators and bodies involved, led by Ofgem to inform BEIS where legislation may need to change.

Consumer protection

The CMA has a wide remit, but most relevant to the greenwashing of green energy tariffs is their responsibility to protect consumers. Roundtable contributors questioned the extent to which consumer protection law is sufficient in preventing instances of greenwashing.

As part of a recent investigation into misleading environmental claims, the CMA found that currently consumer protection law does provide adequate protection from unlawful claims. Although, 40% of environmental claims were found to be misleading primarily due to a lack of clear information about the whole life cycle of a green product or service. The CMA's published guidance to help businesses comply with consumer protection law outlines the following principles:

- claims must be truthful and accurate
- claims must be clear and unambiguous
- claims must not omit or hide important relevant information
- comparisons must be fair and meaningful
- claims must consider the full life cycle of the product
- claims must be substantiated

The SMF broadly welcomes the CMA's draft guidance and the six principles put forward to ensure businesses' environmental claims are accurate and truthful, and consumers are empowered with the information they need to make informed decisions about what

products, services and brands to purchase and support. The provision of accurate, timely and accessible information to consumers about the green credentials of the products and services they consume, and the businesses through which they purchase them, is essential for developing and sustaining consumer trust.

SMF-commissioned polling indicates an appetite amongst consumers for more and clearer information about environmental credentials. 47% of respondents agreed that they wanted to know the specific source of green energy, whilst just 22% said information about green energy tariffs was currently clear and transparent to help them make a decision. These findings suggest that at least in the market for green energy, changes to information on green claims – and the way that information is presented to consumers – will be a welcome intervention.

Nevertheless, we are concerned that the thrust of the draft guidance is to place the onus on the consumer to digest additional and more complex information about the environmental credentials of product or service they are looking to purchase. This sets a precedent for businesses to supply a potentially overwhelming level of detail to consumers about a product or service's environmental credentials, expect them to process that information (some of which can be extremely complex, especially with respect to considering the total environmental impact throughout the life cycle), and make an informed decision based on that evidence.

Informational remedies alone place greater responsibility on consumers to commit time and resources to becoming informed enough to make a decision that they are content with. Meanwhile, providers are not being encouraged by the guidance to supply simple and accessible information, only that which is clear and unambiguous. This does not necessarily mean that it is easy for consumers to engage with. This is particularly problematic for more vulnerable or disengaged consumers who may have time constraints or even cognitive load constraints arising from poverty, meaning the responsibility of information may be cumbersome and unfair.

However, where the guidance promotes the supply of additional information without outlining a principle for ensuring that it is concise and accessible, there is a risk that this places an informational burden on vulnerable and digitally excluded consumers. As its consultation continues, the CMA may consider how to ensure that consumers are empowered with simple and accessible information to feel confident and content making sustainable purchases, without relying on informational remedies alone that may not be suitable for some consumers.

Principles for a new tariff accreditation scheme

The challenge of addressing the greenwashing of green energy tariffs is that while suppliers may mislead consumers on the sources of their energy, marketing their tariff as '100% renewable' may not be unlawful. This is due to the nature of the accreditation scheme whereby certificates of origin can be separated from the energy produced and sold on a secondary market to suppliers who do not purchase renewable energy.

Roundtable contributors agreed that, given the framework underpinning the accreditation scheme is now 18 years old, it is unsurprising that it does not meet the challenges of the energy market today. As a result, there was a broad consensus that

a new accreditation scheme would be necessary. The specifics of what that framework looks like in practice will be up to policymakers and are outside of the scope of this report. However, findings from our survey and roundtable discussions indicate that any new framework should consider what ‘good’ looks like in terms of the environmental benefits of tariffs, and how best to communicate that to consumers in a way that works for them in practice.

If the purpose of green energy tariffs is not only to meet consumer demand for generating renewable energy but also to meet Net Zero targets, then policymakers should ensure that tariffs marketed as ‘100% renewable’ have legitimate and continued environmental benefits. In line with this, tariffs – and the corresponding accreditation scheme – should incentivise the development of the market through direct private investment in UK renewable energy infrastructure and generation. This may be by awarding ‘greener’ credentials to tariffs where suppliers can substantiate their investment. As a result, consumers who are willing and financially able to choose a green tariff can trust that their purchase is supporting genuine and timely climate action.

In keeping with consumer trust principles of transparency and simplicity, an accreditation framework or badging scheme may therefore look more like a graded rating of renewable tariff options (such as the Teaching Excellence Framework ratings of Gold, Silver or Bronze), rather than a binary of ‘green’ or ‘not green’. PCWs, such as uSwitch, have recently introduced similar tariff accreditation ratings to simplify these nuances to consumers.⁴⁶ While it is encouraging to see PCWs play a role in helping consumers to make a decision, building consumer trust here will also require greater involvement from regulators as a trusted authority. An Ofgem representative present at the roundtable emphasised that while this an important area of work for the regulator, they are cautious of previous badging schemes that were not successful.

“In the past, Ofgem has had a green badging scheme in 2010, with an independent committee to give it that trust in the marketplace. It died a death because of Ofgem’s Retail Market Reform initiative limited the number of retail tariffs that suppliers could offer at the time.ⁱⁱ But we’re seeing an explosion [of green energy tariffs] again now, so it’s the right time to be having this discussion.”

“We’re keen to keep things simple but there’s also been a number of false dawns in this space over the past decade or so - I can think of at least three accreditation schemes that have started and wound up within a short space of time. The market has moved on since then but it’s really important we learn those lessons.”

Given the importance of consumer trust to the development of the renewable energy market and the success of Net Zero, this report recommends that **Ofgem should move urgently and decisively to create a new badging scheme for renewable energy tariffs.** The regulator should look to publish a comprehensive impact review of the successes and failures of previous schemes, and apply the lessons learnt to a new accreditation

ⁱⁱ The RMR initiative limited suppliers to a maximum of four tariffs, meaning suppliers were challenged to offer green tariffs in addition to fixed, standard and other tariff options.

framework. This new scheme should look to accredit tariffs where they provide a direct environmental benefit – such as an investment in the UK's renewables infrastructure – and communicate this to consumers through a simple and identifiable badge. Where the regulator identifies varying degrees of environmentally beneficial practices, the badging scheme should convey this in a Gold, Silver or Bronze-style ranking to empower consumers with sufficient information that is easy to digest and understand. This will also reduce the potential for suppliers to mislead consumers with ostensibly green credentials.

If and where powers to implement such a scheme are outside of Ofgem's remit, the regulator should inform BEIS, and policymakers should urgently update the relevant legislation.

A remit for intermediaries

As consumer demand for green products grows over time, as anticipated⁴⁷, it is likely that there may be a growing market for PCWs to digest complex and ambiguous information from businesses into simple, consumer-friendly ratings. This poses both opportunities and challenges for regulators.

PCWs have the opportunity to increase consumer trust by empowering consumers with simple information to compare tariffs or other green goods and make a decision they are happy with. This not only saves consumer time and money (where they can easily find the cheapest options), but it also allows less engaged consumers to participate in markets for green goods more easily.

The challenge of PCWs is that if they grow and begin to develop their own accreditation frameworks, consumers may then feel overwhelmed by different rating systems, which could make comparing green products more difficult. Furthermore, it is unclear whether PCWs fall within regulatory remits for action, if they are found to be promoting misleading information about green goods. Ofgem currently uses an accredited badge for 11 PCWs that abide by the regulator's voluntary code of conduct, The Confidence Code. Although, given its voluntary nature, this raises questions around the practices and accountability of energy PCWs who do not take part in this code.⁴⁸

PCWs have become fundamental to the functioning of the energy retail market, and have the potential to both build or damage consumer trust in this market. We therefore welcome the recent call for evidence on third party intermediaries in the energy market from BEIS, which the SMF has engaged with as part of this research process.

The advertising regulator, ASA, states that while PCWs are regulated under the CAP code, this primarily occurs where brands pay a premium for prominence or preferential positioning within the listed results; or where the website is closely connected to the companies it purports to compare. However, 'natural' un-paid results listed by the PCW are not considered advertising, and therefore outside of the ASA's remit.⁴⁹ This means that the regulation of energy PWCs is more likely to be a consideration of Ofgem.

If BEIS' third party intermediary consultation finds that there is potential for consumer harm or that consumers are harmed by the actions of PCWs in the energy market, then we expect that Ofgem should gain additional regulatory powers to oversee PCWs. As

part of this, Ofgem should ensure that all PCWs in the energy market are benchmarked against a fair green standard, such as the new green energy tariff accreditation scheme recommended in this report.

This report recommends that **the government should consider an expanded remit for Ofgem that includes PCWs, beyond the promotion of a voluntary code of conduct.**

Long-term reform of the energy market

Building a more mature consumer market for renewable energy may mean creating the conditions for businesses to better respond to market forces and to incentivise greater levels of private investment and innovation over the long-term.

Roundtable contributors noted that strengthening this relationship between consumer demand and new private investment will be important for developing the renewable energy market. One contributor argued that:

“We want to get to a market where consumer preferences are actually driving choices that the system is then making. We’re way off that at the moment.”

Since 2015, renewable energy generation has largely been supported by the government’s Contracts for Difference (CfD) scheme.⁵⁰ While public funding and policy leadership have played a critical role in kickstarting the deployment of renewables, reaching the Government’s targets of 40GW of offshore wind by 2030 will likely require greater levels of sustained funding from private investment driven by market signals.⁵¹

The Contracts for Difference scheme supports the generation of low-carbon electricity by providing developers with a guarantee of stable and predictable revenue. This is used to incentivise private investment in markets where high upfront costs and uncertainty of returns may deter potential investors.

In the energy market, a CfD is long-term contract between an electricity generator and a government-owned contract company (LCCC) whereby payments are made to close the difference between the electricity’s agreed strike price and the fluctuating reference price. The strike price is set out as a flat rate in the contract which reflects the cost of investing in low-carbon technology and renewables infrastructure. The reference price reflects the average market price for electricity in the GB market. When the reference price for electricity falls beneath the strike price, payments are made by the LCCC to the generator. When the reference price exceeds the strike price, energy generators pay the LCCC the difference.⁵²

CfDs have been critical in providing government-backed price stability for renewable generators and developing the market thus farⁱⁱⁱ. However, one roundtable contributor suggested that this may mean that there is less of a direct link between consumer preferences for green energy and increased innovation and private investment in renewables generation. This is of direct relevance to our focus here on consumer trust in green energy products. In the long term, consumers must be able to have

ⁱⁱⁱ Although, not all renewable sites are backed by CfDs – for example, the energy generator Ripple is developing wind farms that are instead supported by a co-op of consumer members to include the local and wider community in renewable energy generation.ⁱⁱⁱ

confidence that their purchasing choices are driving industrial activity. Consumers opting for the greenest tariffs should know they are creating stronger incentives for suppliers to provide genuinely green products.

As the renewable energy market has since developed and matured, Energy Systems Catapult suggests that industry is now better placed to be exposed to market forces and manage risks.⁵³ As a result, ESC recommend that the project-specific support mechanism of CfDs should be replaced with a system-wide decarbonisation policy mandate to incentivise greater market innovation and investment.⁵⁴ While we do not take a view on this specific policy, we are cautious that looking ahead, long-term use of CfDs in a mature market may risk serving as a ceiling on, rather than incentive for, innovation and increased private investment.

Reaching the government's 2030 targets for offshore wind will require even greater levels of capital investment over the 2020s with estimates of up to £50 billion needed to install an average of one turbine every weekday throughout the whole of the 2020s.⁵⁵ Research from Aurora Energy Research estimates that as capacity grows to meet this target and energy prices fall, subsidy support schemes, such as CfDs, will increase in payments to meet the agreed strike price.⁵⁶ We do not suggest that public investment in renewable energy should be entirely removed. Rather we recommend that policymakers should consider the nature of government support and policy in the renewable energy market beyond the 2030 target.

That consideration should include asking whether an alternative mechanism should replace CfDs in the long-term (beyond the 2030 offshore wind targets) to incentivise and drive private investment in a more mature renewable energy market. Any new mechanism considered should give investors transparency and predictability, and consumers protection from suppliers that may pass on undue costs or make unsubstantiated or misleading claims about their investments. Additionally, policymakers should consider how to ensure transitioning between CfDs and any new mechanism does not create a gap or hiatus in investment.

ENDNOTES

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