

It ain't easy being green: maintaining consumer trust in green goods and addressing 'greenwashing' claims

TWO PAGE SUMMARY

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Developing trusted consumer markets for green goods will be critical to the success of the Net Zero transition. This report examines how government and regulators can address the presence of 'greenwashing' - with a focus on the retail energy market - to ensure consumers do not feel misled by the costs or benefits of climate policies and green products and services.

Context

Reaching net zero emissions requires climate action, not just from the government, but from citizens making greener, more sustainable decisions in their everyday lives too. Consumer markets play a critical role in supporting the transition through the provision of green goods, such as electric vehicles and green energy.

Where consumers are less able to identify and verify the environmental attributes of products themselves, 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. The Competition and Markets Authority has 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. The energy regulator Ofgem and the Energy Ombudsman have both raised concerns as to whether energy suppliers are being transparent enough with the information they provide to consumers to support their '100% renewable' claims.

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.
- Ofgem issues power generators with one certificate of origin per megawatt hour (MWh) of eligible energy that is produced from a renewable source. These certificates are known as **Renewable Energy Guarantees of Origin certificates - "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.

The presence of greenwashing in a market risks the success of climate action for two key reasons:

1. High-emitting products continue to be manufactured and sold under the guise of 'green', greenwashing may slow investment in low-carbon alternatives.

2. Where consumers perceive that they have been misled, greenwashing threatens the viability of the whole Net Zero agenda by fuelling political backlash.

The Government's Energy Retail Market Strategy commits to “ensur[ing] consumers are accurately informed about their personal contribution to Net Zero, with an initial focus on ‘green tariffs’”, as a medium-term goal from 2024 onwards. The Strategy also recognises greenwashing and the importance of consumer trust in green tariffs, particularly for the goal of stimulating additional investment in low-carbon generation.

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. 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 SMF commissioned a survey from Opinium as part of this research, finding that:

- 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.
- 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.
- Around one in ten (13%) of all 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.

- 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.
- Respondents in social grade C2DE (42%) are less interested in knowing the specific energy source of their tariff, compared to ABC1 respondents (51%).

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.

Recommendations

- ✓ **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.
- ✓ **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.
- ✓ **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.