

17 February 2023

By email: climatereportingconsultation@treasury.gov.au

Submission to Climate-related financial disclosure: Consultation paper

Consistent disclosure of climate related risks is an important step towards all actors in our economy removing and managing these risks. While the consultation paper primarily focuses on improving disclosure for investment purposes, consistent information about climate risks and opportunities also matters to consumers.

While not many consumers will engage directly with company disclosures to regulators, the statements made in these documents can be used as the basis for marketing claims that target consumers. If the quality of reporting improves, standardised information can also be used to compare products or brands in rankings for consumers. These benefits should be considered when assessing the reform.

The Consumer Policy Research Centre (CPRC) is an independent, not-for-profit consumer research organisation. Our mission is to improve the lives and welfare of consumers by producing evidence-based research that drives policy and practice change. Our response to this consultation paper focuses on our research about how consumers are using green claims, including claims that link to the disclosures being considered in this consultation.

Consumer benefits of improved climate-related financial risk disclosure (question 1)

In preparing the Policy Impact Analysis, Treasury should consider the benefits that consumers will gain from improved disclosures. Consistent disclosures will allow comparison between companies, and to some degree products. The ability to compare products and businesses based on climate-related factors is currently something many consumers want but struggle to find.

In 2022, CPRC conducted research on Australian consumers experience of green claims. The aim was to better understand how frequently consumers see green claims, where they see them, what types of claims and what would happen if they found out a business was engaged in greenwashing. We surveyed 2000 Australians in September-October 2022 in a nationally representative survey.¹

Overall, our research found that consumers are interested in purchasing products that are greener or more sustainable, but they're worried about the truthfulness of claims in the market. We found that:

- 55% of Australians consider sustainability as part of their decision making and purchasing habits.
- 50% said they were worried about the truthfulness of green claims across every sector we surveyed consumers about.
- 29% said they use trustmarks to help them to fact check green claims.

We found that consumers reported seeing fewer green claims in superannuation, banking and finance sectors and said they had purchased fewer products in these sectors in the past 12 months because of green claims. We found:

- 33% of people said they thought it was important to have sustainable products in the superannuation sector and 36% in the banking sector.
- 10% of consumers in both superannuation and banking have made purchases because of green claims (18% said it wasn't applicable for them in superannuation and 11% for banking).
- Only 17% of consumers said claims about carbon offsets and 18% said claims about divesting from fossil fuels would influence their decision making.

However, we think the lower rates are in part due to the lower engagement consumers have with the superannuation, banking and finance sectors than other sectors we surveyed. Many customers do not switch

¹ Consumer Policy Research Centre, *The consumer experience of green claims in Australia*, December 2022
<https://cprc.org.au/green-claims/>

banks, credit providers or superannuation within a 12-month period². CPRCs COVID-19 research found that 7% of mortgage holders either refinanced with the same mortgage provider or switched to another in 2020.

Green claims in superannuation and banking appear to be very important to a smaller group of Australians.

In our research we asked people how often they considered sustainability as part of their decision making, 14% of Australians said they always consider sustainability. We found that this group, sustainable shoppers, that made purchases because of green claims in the past 12 months:

- were the most frequent purchasers of sustainable products in banking and finance (43% of 205), superannuation (42% of 199).
- were also more likely to be amongst those who responded that they were worried green claims were untrue in superannuation (30% of 321) and banking sectors (27% of 365).

We also found that consumers would react strongly if they found out a business was engaging in greenwashing, with:

- 47% of Australians saying they would stop buying from a business because of greenwashing.
- 39% of Australians said it would make buying sustainable products more confusing.
- 32% of Australians would want enforcement action taken against that business.³

These findings show the importance of providing high quality, accurate and meaningful information to support green claims and avoid greenwashing.

What entities should have to comply with mandatory climate disclosures (question 3)

Information will be more useful for consumers if more companies are required to comply with mandatory disclosures. There may be some issue with excluding businesses based on size or governance structure, as some smaller businesses can make significant claims about their efforts to reduce or remove climate-risk in their business. For example, several smaller customer owned banks specialise in providing ethical or greener banking options.

If the Treasury chooses to limit the number of businesses that are required to comply with mandatory climate disclosure requirements, it should consider a specific requirement for small or excluded entities to comply if they make marketing claims about that are ill-defined or hard to substantiate such as the future impact or climate benefits of their products, services or business model.

Assurance of climate risk (question 8)

Covered firms should be required to have their climate disclosure reporting independently audited and these audits should be made public. Assurance providers must be subject to independence and quality management standards for all parties to have trust in disclosures. This approach will reduce instances where businesses engage in greenwashing and will broadly increase trust in claims made about climate-related business activities. Greenwashing has the potential to reduce consumer trust and their willingness to act in the future. It also has the potential to cause financial harm where consumers invest or put their savings into funds that falsely claim they are doing more to meet net-zero commitments or do not accurately or clearly report their climate-related financial and non-financial risks.

Emissions reporting frameworks (question 9)

CPRC's research shows that consumers currently struggle to understand or engage with claims about divestment and emissions, in comparison with other green claims.

We found in our research that consumers were less likely to be influenced by claims such as:

² In 2019 10% of credit card holders and 5% of mortgage holders switching banks in the 12-month period. Australian Banking Association. <https://www.ausbanking.org.au/millions-of-australians-switching-financial-products/#:~:text=%E2%80%9CAccording%20to%20this%20report%20from,or%20transaction%20account%20last%20year.> In 2018, 7% of people switched superannuation funds <https://www.vicsuper.com.au/articles/discover-and-learn/wise-up-before-switching-funds>

³ Consumer Policy Research Centre, *The consumer experience of green claims in Australia*, December 2022

- 50% of consumers said they would be influenced by claims about the company shifting investments or divesting from fossil fuels.
- 53% of consumers said they would be influenced by claims about the emissions of a product or service being offset.
- 58% of consumers said they would be influenced by claims about reducing fossil fuel use by a business.

This was compared to 74% of consumers saying they would be influenced by claims about products made from biodegradable, compostable or natural materials.⁴ This could be in part due to the abstract, to consumers who are removed from a business practice, nature of claims about offsets and emissions. However, we expect it is in part related to a lack of consistency between claims about divestment and emissions, making it difficult to understand if one firm is performing relatively better than another.

Whatever approach is taken to emissions reporting must lead to an outcome where the available information is comparable, meaningful and relatively easy to understand for non-expert parties.

Any use of the reporting for marketing or any consumer-facing purposes must be specific about the limits of the data or approach. Vague and ambiguous plans about future actions to reduce climate risks or how a business plans to meet net-zero targets have the potential to create confusion among consumers and an expectation a business is doing more than it really is.

Use of offsets (question 11)

Covered firms should be required to report about their use of offsets and their transition plans, however, they should be required to explain what other actions they have taken before adopting offsets (which should be last resort actions) and what actions they have taken to ensure any offset scheme they are relying on is effective and reliable. Recent reporting by The Australia Institute⁵ and The Guardian⁶ continue to raise concerns that many offset programs are not delivering the outcomes they claim. They must accurately represent their transition plans and not overstate how quickly they will achieve them. Regardless of the final structure of the regime, it is critical the regime and the administrative or standard setting body responsible works in collaboration with ASIC and ACCC to prevent greenwashing.

CPRC would welcome the opportunity to work with Treasury to provide further insights from our consumer research as the strategy is finalised. If you have any queries about this submission or would like more information on our research, please contact [REDACTED], Policy and Program Director at

Yours Sincerely

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⁴ Consumer Policy Research Centre, *The consumer experience of green claims in Australia*, December 2022
<https://cprc.org.au/green-claims/>

⁵ The Australia Institute, 2022, Submission to Independent Review of Australian Carbon Credit Units,
<https://australiainstitute.org.au/report/submission-to-chubb-carbon-offsets-inquiry/>

⁶ The Guardian, 2023, Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows <https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe>