InSight 2020

Better certification labels are necessary for making sustainable choices easier

People and businesses are finding it more and more important to make sustainable choices. The government, too, is working hard to help the transition towards a more sustainable economy go forward, for example, by concluding climate agreements, and by supporting the UN's social-development goals. As a regulator, the Netherlands Authority for Consumers and Markets (ACM) finds it important that, in this transition, consumers and businesses are able to rely on well-functioning markets, and to make well-informed choices that are in their long-term interests and in those of future generations. Certification labels play a key role in that process.

That is why ACM will commit itself to providing more information about certification labels in order to increase awareness of their reliability, and to taking stricter enforcement action in the case of misleading practices. In addition, ACM calls on businesses to stop using individual company logos that give the impression that they meet some sort of statutory standard (or meet an even higher standard), to reduce the number of certification labels, and to make a greater effort in creating high-quality, uniform labels. Finally, ACM asks the Dutch legislature to introduce stricter rules for certification labels.

Introduction

People and businesses find it important to do their part in making the earth a better place to live in, and try to keep that ambition in mind when making everyday choices. This has been confirmed by a study conducted by Dutch research agency Motivaction[1] for the Ministry of Economic Affairs and Climate Policy (EZK): 61% of Dutch believe they are able to help create a more sustainable society, and 39% say that sustainability plays a major role in their choices. That same study also reveals that six in ten Dutch are interested in information about sustainability. This means, among other things, that many consumers wish to know what the impact on sustainability is of the products and services they buy.

Many businesses respond to these needs, and seek to set themselves apart from their competitors in terms of sustainability. ACM finds this trend to be useful as it makes sustainability a competitive parameter in a positive sense next to price and quality, for example.

ACM's mission is to ensure that markets work for people and businesses. They must be able to make well-informed choices of products and services based on correct and easy-to-understand information. In such decision-making processes, the use of certification labels, claims, and logos can significantly help since they offer insight into product characteristics (for example, regarding sustainability or characteristics in general) in a very accessible manner, and make it possible to compare different products. One prerequisite however is that the meaning that consumers attribute to

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[1] Motivaction (2019), *Publieksmonitor Klimaat en Energie*, commissioned by the Dutch ministry of Economic Affairs and Climate Policy, December 2019.

such statements is justified under all circumstances. This means that the 'promise' of any such statement is fulfilled, and that a consumer knows what statement goes with their choice for a certain product or service. A reliable statement thus acts as a guarantee that a product meets certain requirements that consumers cannot test themselves.

Due to the increasing importance of sustainability (in terms of environmental sustainability as a social trend, and increasingly also with regard to animal welfare and origin), this year's edition of InSight focuses on statements offering information about this topic. Furthermore, ACM is currently paying extra attention to the energy transition as it is one of the key priorities in the 2020-2021 ACM Agenda.[2] In that process of making mobility and housing more sustainable (both of which are needed in the energy transition), consumers can be helped by reliable statements when making choices for certain modes of transport or house insulation measures. In this edition of InSight, emphasis is placed on labels that can offer the best guarantee that a product meets requirements that consumers cannot test themselves.

In this edition of InSight, ACM explains how it can help find a solution, and it calls on businesses to take their responsibility. It also asks the Dutch legislature to:

1. Set stricter criteria for existing certification labels
2. Consider promoting the creation of a standard sustainability label

Facing a labyrinth of certification labels, claims and logos, consumers find it difficult to make a choice
Everyone is allowed to launch a label, and there are no specific requirements that labels should meet. Those are just two of many reasons as to why there are so many labels as well as company logos that give the impression of being a label. Already in 2016 did ACM conduct an exploratory study into the role of labels, and that study revealed a proliferation of certification labels.[3] As a result of that proliferation, consumers are unable to distinguish between good and bad certification labels and logos that actually do not guarantee anything. This hurts the reputation of all certification labels, and reduces confidence among consumers in certification labels. That is a shame, because having certification labels could lead to increased transparency regarding key product features, and to increased competition on sustainability.

ACM has observed that, since 2016, no improvements have occurred, especially when it comes to certification labels that tell consumers something about different sustainability aspects. All sorts of sustainability claims are made with regard to a lot of products or services, often referring to some sort of certification label, whereas, in many cases, it is not clear what the status of that label really is, and what requirements that product should therefore meet. In that context, it is quite telling that, for example, Dutch environmental awareness organization Milieu Centraal found that almost 250 certification labels and logos are currently used with regard to sustainability. For example, it found

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[2] The 2020-2021 ACM Agenda is available online at https://www.acm.nl/en/about-acm/mission-and-strategy/our-agendas/2020-2021-acm-agenda.
[3] ACM (2016), *Proliferation of certification labels hurts their credibility*, 7 January 2016.

that, out of the 90+ food certification labels and logos, only 10 really stand out, having strict requirements, reliable checks, and clear information.[4] Something similar can be observed among CO2-certificates that can be purchased with airline tickets or car fuel to compensate for CO2 emissions. With such certificates, too, consumers find it hard to check whether or not all of them are reliable and independent. Furthermore, consumers are given the impression that the environmental damage can be undone whereas it is more likely that the compensation only covers one element of the environmental damage.[5]

One explanation for the imperfect functioning of certification labels is that there are no statutory rules for creating and managing certification labels. Although it is possible through accreditation to ensure that certification labels are issued and checked by expert and independent organizations, this is not mandatory. Furthermore, a certification label in and of itself does not say anything about the level of the agreed upon standard, leaving the actual meaning of a certification label slightly unclear.

This results not only in reduced confidence in certification labels among users, it also results in companies being less able to differentiate themselves on the basis of a certification label. It is not always worthwhile for companies to make investments in order to meet the criteria of a well-respected certification label if there is no competitive advantage over other labels. It also makes it less attractive to create a new certification label that *does* have high standards in terms of quality and process. Moreover, it could lead to companies coming up with claims themselves or putting individual company logos on products pretending they are certification labels. However, all of these different logos will only amplify the information problem of users.

Thinking about possible solutions
Markets can function even better if products and services can be compared in terms of sustainability aspects, especially now that consumers and companies take such aspects into account in their choices and decisions. To that end, it is important that claims are made or can be verified independently. Generally speaking, consumers cannot do the latter themselves.

ACM has identified several preferable solutions:

1. More educational efforts by ACM in order to raise awareness about the reliability of certification labels
At the moment, consumers who would like to make sustainable choices cannot simply rely on logos and claims on the packaging, even if these refer to certification labels. In its educational efforts, ACM will have to point this out to consumers, and refer consumers, for example, to the overview of certification labels of Dutch environmental awareness organization Milieu Centraal for more information about useful certification labels about sustainability.

2. Strict enforcement by ACM in the case of misleading practices

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[4] Milieu Centraal's overview of certification labels is available online at https://www.milieucentraal.nl/bewust-winkelen/keurmerken/ (in Dutch).
[5] Dutch newspaper Trouw (2020), *CO2-compensatie is misleidend en 'nattevingerwerk'*, 13 February 2020 (in Dutch).

Businesses that participate in certification labels as well as the certification label owners should offer consumers accessible and concrete information about what exactly it is they guarantee. For example, as part of the energy transition, more consumers will consider insulation products such as roof insulation or window insulation. Faced with such important decisions, often involving relatively huge sums of money, consumers would be helped by certification labels in their decision-making processes. With regard to insulation materials, there are certification labels that cover the architectural and constructional qualities of products, production processes, and designs. However, certification labels in these fields often do not offer consumers any accessible information about the criteria that are used, and, with certain certification labels, references to certified products and suppliers are missing. ACM calls on certification label owners to make sure that their labels satisfy the information needs of consumers.

Over the next 12 months, ACM will also take a closer look at sustainability claims made by market participants as well as at certification labels in order to prevent consumers from being misled, and it will take action against misleading offers, if necessary. This also applies to vague claims, for example on packaging with company-specific symbols, logos, and texts with which unjustified sustainability claims are made. In addition, ACM calls on companies to stop using individual company logos that give the impression that they meet some sort of statutory standard (or meet an even higher standard), to reduce the number of labels, and to make a greater effort in creating high-quality, uniform labels.

As part of its agenda topic 'the energy transition,' ACM will assess, among other things, the veracity of the claims made by suppliers of sustainable energy products and services. For example, our efforts last year already made sure that claims about green and Dutch power are now actually true, and we will continue to verify such claims[6].

In addition, ACM believes that companies claiming that any environmental damage as a result of a purchase is compensated, must guarantee that such claims are true. If companies say, for example, they contribute to CO_2-projects together with other companies, they will need to take responsibility and check regularly whether those projects truly compensate the emissions of purchases.

3. New rules for structural solution
Finally, ACM asks the Dutch legislature to introduce stricter rules for certification labels. In 2016, ACM called on market participants and trade associations to draw up an assessment framework for certification labels themselves. However, ACM has now come to the conclusion that this call did not have the desired outcome. A considerable number of labels and logos continue to exist. It is difficult for consumers to check whether these actually guarantee what they suggest, because their users provide little information, and compliance is not enforced. As a result, it is impossible for consumers to make well-informed choices on that basis alone.

ACM believes that actions by the Dutch legislature are needed in order to enable consumers to make

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[6] ACM (2019), *ACM: green and Dutch power are now truly green and Dutch, 11 October 2019.*

well-informed choices. Requirements for the creation of certification labels should be introduced where one condition should be that the label in question is transparent about what it guarantees, and that compliance is enforced.

One of the first concrete steps could be mandatory accreditation for certification labels. Inspiration for an objective assessment framework can be found, for example, in the requirements for high-quality certification labels of Milieu Centraal (which assesses whether certification labels are sufficiently strict, transparent, and reliable).

Continuing on that line of thought, transparency could be dramatically improved if the legislature itself (whether or not at a European level too) promoted the introduction of a uniform label for different dimensions of sustainability, similar to those that are required for cars, domestic appliances, and homes. In its working plan, the European Commission announced a proposal to increase consumer empowerment in the transition towards sustainable energy.[7] In that context, the Ministry of Economic Affairs and Climate Policy could focus on creating better certification labels in order to help consumers. For example, looking at color codes, users could see at a single glance what the score of a product or service is for different dimensions of sustainability. ACM understands that the impact thereof can be enormous, because a new assessment framework must be developed for different levels of sustainability, for example. ACM is ready to provide input for such ideas, and also understands that the introduction of a new certification label may come with administrative costs, but it expects that societal benefits will outweigh those costs if consumers and companies are truly able to buy the products with the features that they value. At the end of the day, people and businesses must be able to rely on certification labels when it comes to key product features that they cannot assess themselves.

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[7] European Commission (2020), *2020 Commission Work Program, A Union that strives for more*, 29 January 2020.