A THEORY OF GREENWASHING AS ANTICOMPETITIVE STRATEGY

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ABSTRACT

Greenwashing---communication that creates an overly positive impression of an organization's environmental performance---has been studied extensively as a strategy for manipulating consumer demand and as a deceptive marketing practice (Lyon and Maxwell, 2011; Lyon and Montgomery, 2015). We argue it can also have a variety of anticompetitive effects, and hence should be seen as an antitrust issue as well. First, it can serve as a form of predation that can drive environmentally-friendly ("green") firms out of a market. Second, it can serve as a barrier to entry, enabling "brown" incumbents to retain market share at the expense of green potential entrants. Third, it can deter green claims from genuine green firms, a phenomenon known as "greenhushing" (Montgomery et al., 2025) or "brownwashing (Kim and Lyon, 2015), making it impossible for them to communicate effectively with consumers and again depriving them of market share. To make these points, we present a simple model of competition between green and brown firms, and we discuss emerging policy approaches in Canada, the E.U. and the U.S.

Our model incorporates behavioral assumptions that have not been previously included in the greenwashing literature. As discussed in Lyon and Montgomery (forthcoming), buyers of green products often obtain "warm glow" utility from their consumption. More importantly, these buyers may exhibit motivated reasoning and hence may engage in strategic ignorance and reality denial in order to avoid losing the warm glow from their purchase (Benabou and Tirole, 2016). The former implies that buyers may intentionally avoid sources of information that may undermine the warm glow they receive from seeing themselves as conscientious consumers, i.e. information that might suggest that a product is greenwashed. The latter implies that buyers may refuse to accept unsolicited news that a product is greenwashed. Both

of these modes of behavior can make it difficult or impossible to disabuse consumers of their beliefs about the green attributes of a product from which they receive a warm glow.

In our model, the market is initially monopolized by Firm B, which produces only "brown" goods. Firm G enters with a "green" good that offers identical product performance but with lower environmental impacts. In response, Firm B may choose to enter the green segment of the market, either by producing green goods or by fraudulently labeling some of its brown goods as green. In the latter case, if consumers cannot distinguish between the claims of the two firms, Firm B may take enough market share to drive Firm G from the green market segment. Alternatively, the existence of Firm B's "green" product may decrease consumer willingness to pay for green products generally making production of the genuine green product unprofitable (Harbaugh et al., 2011). Thus, greenwashing can be used as a form of predation.

Whether Firm B's deceptive claims are detected by consumers depends upon whether Firm G can detect and expose them to consumers. Such exposure could also be conducted by a non-governmental organization (NGO), as in Lyon and Maxwell (2011). However, the effectiveness of this strategy depends upon consumer cognition, which is subject to a variety of biases as mentioned above. Exposing greenwashing may be ineffective if consumers obtain warm glow from their purchases and prefer to avoid evidence they purchased greenwashed products. It may also cause consumers to question Firm G's motives, harming its reputation. Exposing greenwashing could also undermine customer trust in the market more broadly, and cause the green market to shrink, potentially undermining Firm G's ability to survive in the market. Thus, the tools available to Firm G may be inadequate to prevent predation.

In similar fashion, Firm B may be able to deter entry by Firm G altogether by making green claims prior to any entry attempt by the latter. The same cognitive biases described above make it difficult for NGOs to correct Firm B's greenwashed claims absent corrective public policies, and hence create an entry barrier.

Finally, depending upon the level of consumer trust in the market, Firm G may have disincentives to make its own green claims. Just as consumers may engage in strategic ignorance or reality denial in order avoid undermining their view of themselves as prosocial, they may become angry at greenwashing

firms they view as being hypocritical. If this backlash against greenwashers is strong enough, and consumers cannot perfectly distinguish genuine from fraudulent green claims, genuine green firms may have incentives to engage in brownwashing or greenhushing for fear of being falsely labeled as greenwashers.

We discuss a variety of potential policy prescriptions and the extent to which they ameliorate these concerns. One possibility is to rely on existing antitrust law around false advertising. However, this approach may be inadequate in our setting since typical false advertising cases typically do not implicate the cognitive biases we identified above. A second approach is to rely on guidance regarding green claims, such as that put forward by the Federal Trade Commission in its Green Guides, which discourage firms from making particular types of green claims that may be misleading. A more aggressive alternative is a policy such as that recently enacted in Canada, which passed bill C-59 amending the Competition Act to require that companies making green claims must substantiate them consistent with "an internationally recognized methodology."

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