

THE Greenwashing HYDRA

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Greenwashing, whereby companies make themselves appear more environmentally friendly than they really are, has become a many-headed beast.

Planet Tracker believes that greenwashing strategies are becoming increasingly sophisticated. They range from emphasising a green activity, without betraying that the rest of the company's business is environmentally damaging, to hiding in a crowd and moving at the speed of the slowest adopter.

Greenwashing is misleading but not always illegal; regulatory loopholes are sometimes used. What's surprising is that it remains so prevalent despite being called out by NGOs, the media and, increasingly, regulators. Investors should remain vigilant – after all, they are being misled.



What is greenwashing?

Corporate greenwashing is defined by ClientEarth as the use of *'advertising and public messaging to appear more climate friendly and environmentally sustainable than [a company] really is. It's also a technique used by certain companies to distract consumers from the fact that their business model and activities actually do a lot of environmental harm and damage'*.ⁱ

The greenwashing incentive

There are many reasons why companies engage in greenwashing. It is possible for greenwashing to occur as a result of corporate ignorance. However, a company is often incentivised to make its products more attractive to consumers, thereby increasing sales volumes and/or enabling price rises. Greenwashing tactics could achieve this. Furthermore, an increasing number of employees are attracted to work for companies with strong sustainability credentials.

Companies with strong ESG credentials can attract a valuation premium relative to their peers as investment into sustainable and ESG funds increase. In turn, this can lower the cost of capital as their equity attracts a higher price and they therefore have to issue fewer shares to raise funds. The same is true of green debt where investors have been prepared to accept a lower yield in return for sustainability and ESG targets.

In summary, simply making a company appear more environmentally sustainable and caring appears to carry only upside, unless the claims are shown to be false. It should be remembered that making false environmental claims hinders the development of the green economy.

Why greenwashing needs to stop

The IMF's Global Financial Stability Report of October 2021 addresses the reasons why greenwashing needs to stop. The report states that *'the sustainable investment fund sector can be an important driver of the transition to a green economy, supporting pro-transition corporate behavior through stewardship and potentially boosting investment expenditures of firms that could foster the transition'*.ⁱⁱ But it points out some hurdles that investment managers and financiers face such as *'data gaps, risk of corporate greenwashing, multiple disclosure standards and a lack of globally accepted taxonomies'*. These issues hamper investment strategies that support the transition and can result in the misallocation of capital. Even worse, misleading statements could fund and perpetuate poor environmental practices.

Six shades of green

What Planet Tracker finds disturbing is that greenwashing appears to be becoming increasingly sophisticated. Presumably the best marketing and communications minds are being put to use by corporates. Below we discuss some of the main greenwashing tactics we have observed.



Greencrowding

Greencrowding is built on the belief that you can hide in a crowd to avoid discovery; it relies on safety in numbers. If sustainability policies are being developed, it is likely that the group will move at the speed of the slowest.

Greencrowding can be adopted by different sorts of groups including governments and alliances of environmental issues in which corporates join forces to effect change. Planet Tracker investigated the Alliance to End Plastic Waste (AEPW) and found that the group is very closely linked to the American Chemistry Council (ACC), which lobbied against establishing a negotiating framework for the Global Plastic Pollution Treaty. In the first three years of its operation, the AEPW recycled less than 0.0004% of global



plastic generated; OECD predicts 1,014 Mt by 2060. In addition, the top 10 producers of single-use plastic in the Alliance did not even remove or recycle 99.99% of their own plastic waste; these major producers generated almost 32 Mt of waste in 2019, whilst the Alliance removed and recycled 4 Kt of plastic waste during their first three years of existence. Finally, none of the group's progress reports provide transparent, measurable and audited information. Read the [full report on the AEPW](#).

Greencrowding is a particularly clever strategy as investors and the media are naturally attracted to the large numbers associated with these groups, whether it be simply the number of corporate signatories, or the implied cumulative investments. However, caution is advised, prompt due diligence is required and progress towards stated targets should be closely monitored.

Greenlighting

Greenlighting occurs when company communications (including advertisements) spotlight a particularly green feature of its operations or products, however small, in order to draw attention away from environmentally damaging activities being conducted elsewhere.

When Total rebranded as TotalEnergies in 2021, it promoted its name change on Twitter using the hashtag *'#MoreEnergiesLessEmissions'* and by referencing how it was *'adapting to meet the climate challenge'*.ⁱⁱⁱ Since TotalEnergies has plans to maintain oil production and increase gas production, this act of **greenlighting** led to a lawsuit being filed against the company for breaching the ban on misleading practices under the European Unfair Consumer Practices Directive. Joint legal action claims that TotalEnergies plans to produce more fossil fuels between now and 2050, making their net zero goal unachievable.^{iv}

Recently, another regulator has been examining such tactics. In the UK, the Advertising Standards Authority (ASA) examined complaints that HSBC's advertisements, around the time of COP26, stated that the bank was *'aiming to provide up to USD 1 trillion in financing and investment globally to help our clients transition to net zero'* and that *'we're helping to plant 2 million trees which will lock in 1.25 million tonnes of carbon over their lifetime'*. The ASA upheld the complaints arguing that consumers would not expect that HSBC *'making unqualified claims about its environmentally beneficial work, would also be simultaneously involved in the financing of businesses which made significant contributions to carbon dioxide and other greenhouse gas emissions and would continue to do so for many years into the future'*.^v





Greenshifting

Greenshifting is when companies imply that the consumer is at fault and shift the blame on to them.

In November 2020, Shell, the oil and gas major, asked what people were prepared to do to help reduce the world's carbon emissions. In response, United States Congresswoman Alexandria Ocasio-Cortez wrote *'The audacity of Shell asking YOU what YOU'RE willing to do to reduce emissions'*, claiming the company had been aware of the damage emissions were doing to the planet for decades.^{vi}

In May 2021, Harvard researchers Geoffrey Supran and Naomi Oreskes published a study of ExxonMobil's use of language. They found that though in company communication and academic papers, ExxonMobil often used phrases like 'fossil fuel' and recognized the major role their products play in global warming, the company's public communications focused on 'consumers', 'demand' and 'energy efficiency', implicitly pointing the finger elsewhere.^{vii, viii}

We anticipate that the advertising agencies working on behalf of corporates will be more cautious about adopting this strategy going forward as it is one of the easier greenwashing strategies to identify.

Greenlabelling

Greenlabelling is a practice where marketers call something green or sustainable, but a closer examination reveals that their words are misleading.

Claims may only be partially misleading. When it was launched in 2019, SC Johnson's Windex Vinegar Ocean Plastic bottle claimed to be the world's first window cleaner bottle made from 100% *'ocean plastic'*.^{ix} A footnote subsequently expanded the definition of 'ocean plastic' so as to refer to *'ocean bound plastic'*. Ocean Bound Plastic certified plastic is recycled plastic collected within 30 miles of an ocean or a waterway leading to an ocean.

Presently, there is a class action against KLM Royal Dutch Airlines for allegedly misleading claims by encouraging customers to offset and reduce the environmental harm of flying by purchasing carbon credits through its CO2ZERO programme.

The lawsuit claims there is no credible evidence that purchasing offsets nets out the environmental effects of flying.^x

Greenlabelling appears to be the most pervasive form of greenwashing. The European Commission has focused on this issue noting that, *'today it is difficult for consumers, companies and other market actors to make sense of the many environmental labels and initiatives on the environmental performance of products and companies'*.^{xi} The EU Commission claims that *'there are more than 200 environmental labels active in the EU, and more than 450 active worldwide; there are more than 80 widely used reporting initiatives and methods for carbon emissions only'*. Terms are often ill-defined but those widely used include 'bio', 'from nature', 'natural', 'green' and 'eco-friendly', to name a few.



The European Commission is not the only organisation seeking to define these terms. The US Federal Trade Commission is seeking, among other things, '*the accuracy of various environmental claims*'.^{xii}

compostable recyclable
from nature eco-friendly
earth friendly renewable
green organic
sustainable
bio chemical free
degradable
ozone-friendly natural
recycled content

Figure 1: Ill-defined green and sustainable terms used by marketers. Source: Planet Tracker.

Greenrinsing

Greenrinsing refers to when a company regularly changes its ESG targets before they are achieved.

Planet Tracker has witnessed such a strategy from both Coca-Cola and PepsiCo. In [Soda-pressing](#) we revealed the frequency with which these two companies adjusted their recycling targets before the target date.

Instead, they pushed forward the target date while upping the previous target. Over the past 5 years, PepsiCo has changed its recycling targets three times, while Coca-Cola has done so twice.

In addition to the ever-moving targets, both global brand owners identified an extensive number of risks on why they might not be able to meet their targets; 47 from Coca-Cola^{xiii} and 13 from PepsiCo.



Greenwashing demonstrates how greenwashing has become increasingly sophisticated. Its origin can be found in those companies which set ambitious targets but failed to achieve them; their rhetoric failing to match their sustainability outcomes.

We have witnessed an explosion in sustainability metrics, claims and targets in recent years, but many are not substantiated or look unlikely to be achieved. Net Zero Tracker has found that of the top 2,000 publicly traded companies by revenue, only 702 have net zero targets. Of these, only 65% (456 of 702) meet minimum procedural reporting standards. Moreover, Net Zero Tracker reports that about half of the 700 plus companies have embedded net zero targets in their corporate strategy documents or annual reports, while the remainder have only announced targets, or an intention to announce net zero targets. 60% of companies that reported emission scopes coverage either only partially cover or do not cover their Scope 3 emissions at all.^{xiv} For a company by company analysis of transition plans to net zero, please see the following climate transition reports by Planet Tracker: [Coca-Cola](#), [Danone](#), [Nestlé](#). For an analysis of 1.5°C alignment for major oil and gas companies please view Carbon Tracker's [Paris Maligned](#) report.

Greenhushing

Greenhushing refers to the act of corporate management teams under-reporting or hiding their sustainability credentials in order to evade investor scrutiny.

Nearly a quarter of the 1,200 global sustainability executives surveyed by South Pole were found to not publicise their climate '*achievements and milestones beyond the bare minimum or as required by, for example, the Science Based Targets initiative*'.^{xv}

In recent months, a number of large asset management firms, including HSBC, Amundi and BlackRock, have downgraded a number of their Article 9¹ funds to Article 8² classification.^{xvi} This provides an indication of the asset managers' response to the Sustainable Finance Disclosure Regulation's (SFDR) new regulatory technical standards that will come into force at the beginning of 2023 in the EU only. Though the firms claim that this is merely a reaction to overly strict regulation, an alternative interpretation is that these downgrades have been made to avoid the scrutiny of the Article 9 standard.

Some readers may be surprised that we include greenhushing as a form of greenwashing, but it may not be as innocent as it first appears. It could demonstrate how sophisticated greenwashing strategies have become. For example, management teams may be trying to gain a green valuation uplift without subjecting themselves to proper investor scrutiny by suggesting that the company's sustainability performance is stronger than its official pronouncements suggest.

Investors searching for inefficient pricing may succumb to greenhushing as it hints that the company is more sustainable than many believe and therefore underpriced. Alternatively, executives which may be facing uncomfortable proxy votes or intensive active engagement on sustainability-linked issues, could use this as a defence mechanism without having to validate their ESG credentials. For a fuller explanation please see Planet Tracker's [Greenhushing blog](#).

¹ Article 9 funds are those that specifically have sustainable investment as their objective. They are also known as dark green funds.

² Article 8 funds are those that promote environmental or social characteristics as well as good governance, but do not have them as the overarching objective. They are also known as light green funds.



Global scrutiny

Globally, regulators are starting to address the greenwashing issue by identifying the problem, gathering information and proposing new regulations to enable informed choices. This has been led by regulators from the European Union (EU), UK and USA. The EU's Unfair Commercial Practices Directive,^{xvii} EU Taxonomy and the proposal for a Directive on Empowering Consumers for the Green Transition,^{xviii} and, in the UK, the Taskforce on Climate-related Financial Disclosures (TCFD) reporting mandate^{xix} and the Green Claims Code,^{xx} are laying the foundation for regulated ESG reporting.

In the USA, the Security and Exchange Commission (SEC) has been particularly focused on greenwashing issues, for both funds and corporates. In March 2021, the SEC established the Climate and ESG Task Force within the Division of Enforcement to develop initiatives to proactively identify ESG-related misconduct consistent with increased investor reliance on climate and ESG-related disclosure and investment.^{xxi} In 2022, successful enforcement actions by this Task Force include two financial institutions – BNY Mellon^{xxii} and Goldman Sachs Asset Management^{xxiii} – which both failed to follow correct ESG procedures, and two mining companies – Vale^{xxiv} and Compass Minerals^{xxv} – which manipulated dam safety audits and failed to adequately assess the financial risks of mercury contamination, respectively. For non-financial regulation the Federal Trade Commission (FTC) continues to prosecute cases of greenwashing. It provides updates on legal cases which, in 2022, included Kohl Inc.^{xxvi} and Walmart.^{xxvii}

But other regions are also making moves. For example, Australia has recently enforced its laws on greenwashing after the country's securities regulator, the Australian Securities and Investments Commission, issued an information sheet on **'How to avoid greenwashing when offering or promoting sustainability-related products'** in June 2022.^{xxviii} The paper makes clear why it finds greenwashing unacceptable stating it **'distorts relevant information that a current or prospective investor might require in order to make informed investment decisions. It can erode investor confidence in the market for sustainability-related products and poses a threat to a fair and efficient financial system'**. In December 2022, the ASIC issued three infringement notices to investment manager Vanguard Investments Australia Ltd (Vanguard) in further action against alleged greenwashing.^{xxix}

In Singapore, the Monetary Authority of Singapore (MAS) has progressively integrated environmental risk into its supervisory framework and processes at the individual firm and system-wide levels.^{xxx}

More recently the regulator has provided tools, including artificial intelligence (AI), to financial institutions allowing them to assess the sustainability performance of Singapore's real estate sector. It will also be used to detect greenwashing.^{xxxi}

Japan's Financial Services Agency (FSA) has recently called for responses to its supervisory guidelines for financial instruments, business operators, etc. regarding ESG investment trusts.^{xxxii} In its call for responses the FSA states **'The number of investment products which incorporate ESG (environmental, social and governance) factors in their names and investment strategies has been increasing both in Japan and overseas. At the same time, concerns over "greenwashing" that their actual investments may not be commensurate with such ESG claims are attracting attention globally'**.

Bursa Malaysia has been undertaking annual sustainability disclosure reviews (SDR) of sustainability statements or reports of public listed companies (PLCs) on a sampling basis since 2017. In 2021, this was extended to the entire capital market in respect of Main Market and ACE Market PLCs, which covered



Sustainability Statements/Reports of 869 PLCs (740 Main Market; 129 ACE Market) for financial year ended 1 April 2020 to 31 March 2021.^{xxxiii}

And in China, the People's Bank of China and other departments jointly issued the '**14th Five-Year Plan (2012-25) for the Development of Financial Standardisation**', which focuses on the need to improve the green financial standard system and addresses greenwashing.^{xxxiv}

The multi-headed beast facing a multi-pronged attack

Investors need to be mindful of greenwashing from a number of angles. Scrutiny is global in reach. ESG portfolios are being screened by financial regulators who are shining a spotlight on misleading and increasingly sophisticated greenwashing. But so are regulators which represent consumers. They are analysing individual companies to determine whether customers are being misled.

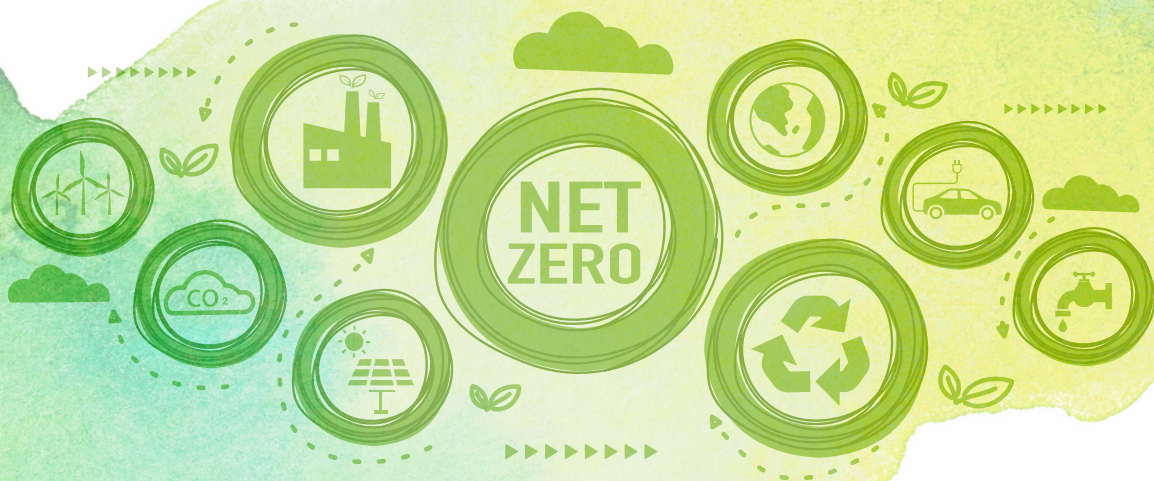
Will greenwashing prove to be one of the greatest mis-selling scandals of modern times?



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ABOUT PLANET TRACKER

Planet Tracker is a non-profit financial think tank producing analytics and reports to align capital markets with planetary boundaries. Our mission is to create significant and irreversible transformation of global financial activities by 2030. By informing, enabling and mobilising the transformative power of capital markets we aim to deliver a financial system that is fully aligned with a net-zero, nature-positive economy. Planet Tracker proactively engages with financial institutions to drive change in their investment strategies. We ensure they know exactly what risk is built into their investments and identify opportunities from funding the systems transformations we advocate.

THOUGHT LEADERSHIP

In addition to addressing challenges and solutions in our main programmes, Planet Tracker aims to foster debate on themes which transcend the sector-specific nature of our industry focus and are applicable across all our programmes.

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