ESG: THE OPPOSITE OF GREENWASHING

Companies and organisations are increasingly under pressure to improve their ESG disclosure and the perceived "eco-friendliness" of their products and services.

66%

Nielsen Media Research found in 2015 that 66% of global consumers we're willing to pay an eco-friendly premium and many companies and organisations see this as an opportunity to increase their market reach.

However, there is also the potential for "greenwashing" if companies and organisations overreach. That can put the efficacy of ESG practices and investment at risk.

The term "greenwashing" was coined by environmentalist Jay Westerveld in 1986. He criticized the way hotels framed the "save the towel" initiative in purely environmental terms when, in fact, it was actually a financial strategy to reduce operating costs.

Since 1986 the concept of greenwashing has become more pronounced, to the extent that regulators are developing rules and provisions to prevent and punish greenwashing. Despite the accelerated use and sophistication of greenwashing, there is no universal definition.

Fundamentally the question is to what extent companies negatively impact the communities and the natural environment in which they operate.

Greenwashing amounts to selective disclosure, whereby companies and organisations create an overly positive corporate image through positive communication about environmental performance or practices whilst retaining negative information in this regard.

This results in misleading consumers and other stakeholders of the company or organisation about its environmental performance or practices.

Greenwashing can occur either at firm level or product level. An example at firm level is where General Electric implemented their "Ecomagination" campaign, whilst simultaneously lobbying to prevent new clean air EPA requirements. Product level greenwashing is where LG's Energy Star ecolabel of energy efficiency was used to certify 10 models of LG's refrigerators that did not meet that level of energy efficiency.

The consequences of greenwashing can be severe for companies. The CEO of Deutsche Bank's funds arm, DWS resigned during June 2022 following a raid of offices and separate investigations conducted by both the US Securities and Exchange Commission (SEC) and the German financial watchdog BaFin into alleged fraudulent greenwashing.

This came about when a whistle blower, and the former head of sustainability notified the US authorities of her concerts that DWS had wrongly claimed that certain assets under management included ESG criteria, when this was not the case. Sufficient factual indications were found that ESG criteria were not considered in a large number of investments.

The US SEC also fined the Bank of New York Mellon $1.5 million during May 2022. This was due to material misstatements and omissions in connection with their ESG claims made during July 2018 to September 2021 that all investments in certain funds were subject to ESG quality review. However, on closer investigation it was found that at the time the ESG claims were made, many investments in those funds did not have an ESG quality review score.

Regulators are concerned about the increasing occurrence of greenwashing and are developing and strengthening rules for asset managers and organisation issuers to ensure the authenticity of ESG credentials and the claims being made.

The European Union's Sustainable Finance Disclosure Regulation (SFDR) has launched a reporting framework for asset managers with EU-domiciled ESG-labelled funds requiring information about their holdings and investment activities from 2023 onwards. Likewise, during May 2022 the US SEC published two proposed rule changes for public comment to prevent greenwashing. How can companies and organisations ensure that they do not fall foul of greenwashing?

TerraChoice, part of the UL Global Network, is one of the largest independent testing and certification organisations and has developed the "Seven Sins of Greenwashing" and is set out in Table 1 below.

Table 1: Seven Sins of Greenwashing. Souce: TerraChoice

THE 7 SINS OF GREENWASHING

No	Sin	Description
1.	**Sin of the hidden tradeoff**	Claim of a "green" product, based on a narrow set of attributes without considering other important environmental concerns
2.	**Sin of no proof**	An environmental claim that cannot be substantiated by readily available information or reliable third-party certification
3.	**Sin of vagueness**	A poorly defined or broad claim that can easily be misunderstood by the consumer
4.	**Sin of irrelevance**	A correct but unimportant or unhelpful environmental claim, such as "CFC-free" goods
5.	**Sin of lesser of two evils**	Claims that are correct within the product category, but can distract consumers from the greater environmental impact of the category, such as organic cigarettes
6.	**Sin of fibbing**	False environmental claims
7.	**Sin of worshipping false labels**	A product that gives the false impression of third-party endorsement, using words and/or images

CONTACT US

Please reach out to any one of our Sector Leaders, listed below, should you wish to obtain any further details of our ESG Sector:

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