BRAINSHORING SERVICES

Greenwashing

The uses, drivers, risks and trends of misleading environmental claims

Table of contents

Introduction

In today's environmentally conscious world, companies are rapidly adapting to the escalating demand for sustainability. However, the push to go green has led to the **emerging trend of greenwashing**. Greenwashing involves deceiving, misleading, or confusing consumers and investors by portraying a company, initiative, or product as environmentally or socially friendly, even when these claims are questionable.

Furthermore, as public interest in sustainability continues to shape the future of brands, companies are strategically aligning their products, services, and overall values with this global shift in attitudes. However, the **risk of facing greenwashing accusations** has become a **major concern** for many companies.

Greenwashing claims have been made across various industries, including **oil and gas, aviation, and retail**, in different parts of the world. In these industries where environmental impact is a major concern, misleading claims are a heightened risk.

Although the concept is somewhat ambiguous, it has become a focal point for litigation and regulatory scrutiny. Companies face **reputational, regulatory, and litigation risks** associated with greenwashing, requiring careful attention. However, common themes underline the potential consequences. Greenwashing risks are **context-specific** and vary depending on the jurisdiction, industry, and product.

This report explores the different types of greenwashing, provides examples of greenwashing cases by industry, analyzes the risks associated with greenwashing, and examines the latest trends in regulations and consumer perceptions surrounding this critical issue.

Greenwashing types vary based on how companies manipulate information, whether by hiding, distorting, or adjusting it

WHAT IS GREENWASHING ?

Greenwashing is the act of **falsely portraying sustainability, exaggerating, or misrepresenting ESG performance**. This tactic is increasingly common across industries and regions. There are various ways in which greenwashing can be conducted:

GREENCROWDING

relying on safety in numbers by **hiding in a crowd** to avoid detection of unsustainable practices

GREENLABELLING

falsely portraying products as eco-friendly via tactics like **green packaging** and **deceptive descriptions**

GREENLIGHTING

highlighting minor green features to distract from harmful practices, creating a potentially deceptive eco-friendly focus

GREENSHIFTING

shifting sustainability responsibility to consumers, deflecting from lacking corporate action

GREENHUSHING

hiding sustainability efforts to create a misleading impression of high environmental responsibility

GREENRINSING

adjusting ESG targets just before reaching them to evade scrutiny in the competitive landscape of sustainability claims

EXAMPLES:

Greencrowding	Greenlabelling	Greenlighting	Greenshifting	Greenhushing	Greenrinsing
The **Alliance to End Plastic Waste** claims to address plastic pollution, but it includes major plastic waste producers who use their involvement in the alliance to project an eco-friendly image	The ASA penalized an FMCG ad for unclear "kinder to our planet" claims, **citing insufficient evidence on the sustainability of its new recycled bottles**	In 2021, a major car manufacturer with **only 0.2% zero-emission sales** pushed a zero-emissions campaign, **stating that the future looks "electric"**	A major energy company introduced a carbon calculator, **urging customers to share emission reduction** pledges despite over 96% yearly spending on non sustainable oil and gas	To avoid investor scrutiny, two asset management firms **downgraded their sustainable funds from Article 9 to Article 8**, which doesn't mandate a sustainable outcome	A major beverage company frequently falls short of and adjusts its recycling targets, like **reducing its goal for recycled packaging from 50% to 25%** between 2020 and 2022

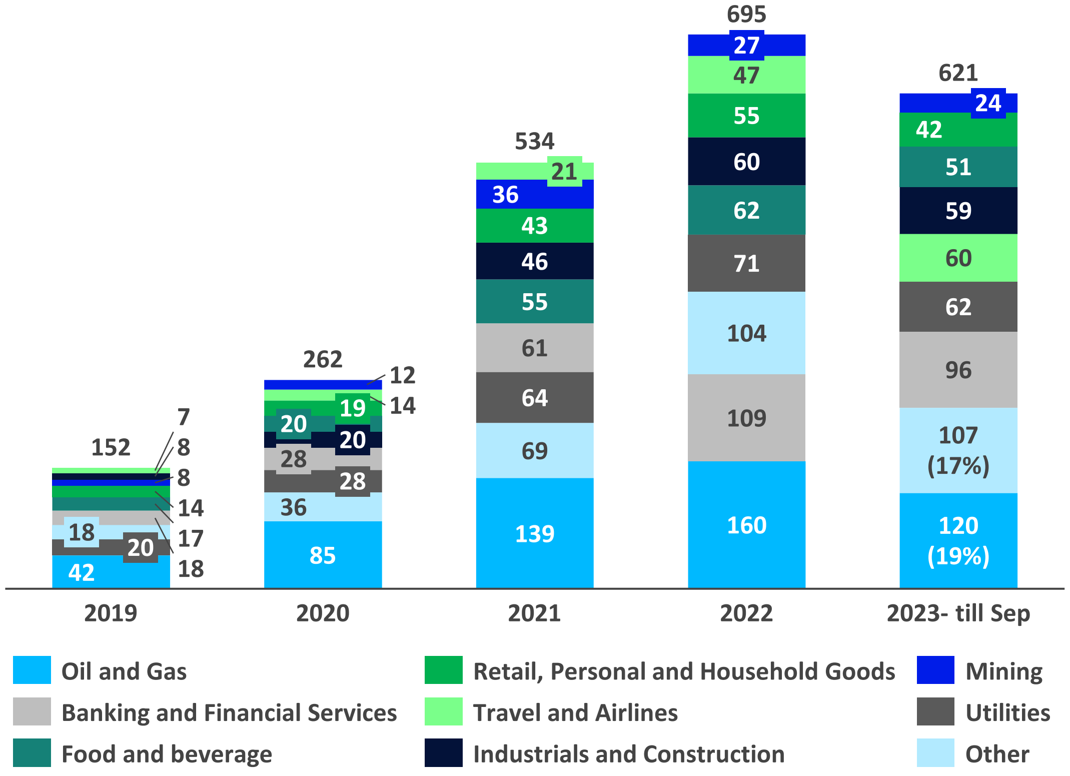
Sources: *Planet Tracker "The Greenwashing Hydra" (2023), Press search*

Greenwashing in different industries

Oil & Gas and financial services have the highest share of greenwashing risk incidents since 2022

- In the past 5 years, industrial and extractive sectors, known to have a high environmental footprint, have posed a considerable greenwashing risk. **Oil and gas**, in particular, accounted for the highest share of greenwashing incidents[1], with **23% in 2022 and 19% in 2023** (till September)
- **The financial services industry ranked second**, recording 16% in 2022 and 15% in 2023 (till September). Additionally, **there was a 70% increase in climate-related greenwashing risks** within the banking and financial services sectors in 2022
- **More than 50% of the financial services-related incidents either mentioned fossil fuels or linked financial institutions to oil and gas companies** through financing or investing in projects. This association is considered high-risk, prompting investors to call for divestment
- Aside from the industries with the highest shares of recorded greenwashing claims, **FMCG and fashion are top of mind for consumers in terms of greenwashing,** dominating discussions across social media and articles

CLIMATE GREENWASHING INCIDENT BY SECTOR[1]



1) *The graph on greenwashing risks uses RepRisk's method to identify ESG incidents involving environmental issues and misleading communication for both public and private entities. The graph depicts the number of entities facing these risks across regions over time, compared to the 2022 report.*

***Sources**: Reprisk "On the rise: navigating the wave of greenwashing and social washing" (2023), Herbert Smith Freehills, Press search*

Financial and oil & gas companies engage in greenwashing through deceptive sustainability claims and selective investment strategies

OIL AND GAS GREENWASHING PRACTICES

- **Misleading Carbon Offset Claims:** Prioritizing carbon offset programs without addressing the full carbon impact of fossil fuel extraction, production, and transportation
- **Highlighting minor renewable investments:** Publicizing small investments in renewables while maintaining focus on traditional fossil fuels
- **Natural Gas as a clean alternative:** Portraying natural gas as a cleaner option without acknowledging its environmental impact, including methane-related emissions

FINANCIAL SERVICES GREENWASHING PRACTICES

- **Deceptive Investment Practices:** Falsely portraying commitment to environmental causes through deceptive investments that contradict the institution's stated goals
- **Emission Omission Strategy:** Selectively sharing climate change efforts, omitting details about the institution's environmental impact to create a misleading narrative
- **Geographically Biased Sustainability Claims**: Emphasizing positive practices in one region while engaging in environmentally damaging activities elsewhere

GREENWASHING EXAMPLE

- **12 leading European oil and gas companies** were accused of **greenwashing**, as **only 0.3% of their energy in 2022 was renewable**
- Despite their 'net-zero' commitment by 2050, a lack of coherent strategies among these companies was revealed, along with other greenwashing tactics that include misleading diagrams and the promotion of distracting measures like carbon capture

GREENWASHING EXAMPLE

In 2022, the U.S. Securities and Exchange Commission **imposed fines of USD 1.5 million and USD 4 million on two financial institutions for ESG misstatements** and policy failures in their investment management units. This marked **the first instance of regulators penalizing financial institutions** for ESG-related shortcomings

Sources: *Press search*

Ranked 3rd and 4th for greenwashing risks, utility companies and airlines use carbon offsetting to falsely appear more sustainable

UTILITIES GREENWASHING PRACTICES

- **Exaggerated Renewables Share:** Inflating the reported percentage of energy sourced from renewables to create a false appearance of commitment to green energy
- **Downplaying Non-Renewable Impact:** Minimizing the environmental impact of non-renewable energy production
- **Misleading Carbon Offset Claims:** Falsely asserting that utilities or their customers can effectively offset their carbon footprint through carbon offset purchases, diverting attention from substantive changes

AIRLINES GREENWASHING PRACTICES

- **Promoting Technological Solutions:** Overstating the potential of future tech like electric or hydrogen planes without concrete integration plans
- **Carbon Offsetting Programs:** Highlighting carbon offset programs to compensate for flight emissions without substantial efforts to reduce the airline's overall carbon footprint
- **Emphasizing Fuel Efficiency of Newer Aircraft:** Focusing on the fuel efficiency of newer aircraft in the fleet while also leaving older, less efficient ones in the fleet

GREENWASHING EXAMPLE

An Australian consumer advocacy group has filed a lawsuit against an energy company, alleging it misled **over 400,000 consumers** about the environmental impact of its **"carbon-neutral" electricity**. The energy company denies the allegations, citing compliance with Climate Active certification and a commitment to informing consumers about its energy offerings

GREENWASHING EXAMPLE

In 2023, an **Emirati airline faced the risk of legal action for allegedly misleading ads claiming "net zero emissions by 2050"**. Flight Free Australia, a not-for-profit environmental group, filed a complaint, **that could result in penalties exceeding USD 50 million or 30% of turnover**

***Sources**: Press search*

The fashion and FMCG industries are at the forefront of consumers' concerns regarding greenwashing allegations

FASHION GREENWASHING PRACTICES

- **Biodegradable Claims:** Advertising garments as biodegradable without specifying the necessary conditions for biodegradation
- **Limited Sustainable Product Lines:** Highlighting a specific line of sustainable products while most offerings may still be produced with conventional, less eco-friendly methods
- **Recycled Content Distortion:** Exaggerating the percentage of recycled content without clarifying whether it's pre-consumer or post-consumer materials

FMCG GREENWASHING PRACTICES

- **Misleading Recycling Claims:** Falsely claiming a product is entirely recycled when only specific components are, creating a deceptive impression of overall sustainability
- **False Health and Safety Claims:** Marketing products as safer alternatives for health-conscious consumers, despite containing harmful chemicals
- **Celebrity Sustainability Ambassador with Contradictory Actions:** Leveraging a celebrity's endorsement to create the appearance of eco-friendliness without making genuine sustainability improvements

GREENWASHING EXAMPLE

The ACM investigated a major Swedish fast-fashion brand and a French sporting goods retailer using terms like 'conscious' and 'ecodesign' and for providing unclear sustainability information. **Although no fines were imposed, the two brands voluntarily agreed to improve their labels or remove them and pledged donations**. The first brand pledged EUR 500k and the second pledged GBP 400k to support environmental projects.

GREENWASHING EXAMPLE

A coffee pod manufacturer settled a USD 10 million class-action lawsuit over misleading recyclability claims. The pods were marketed as recyclable, but the court found issues with processing, leading to disposal or contamination. The settlement includes **new packaging warnings about limited recycling options in many communities**.

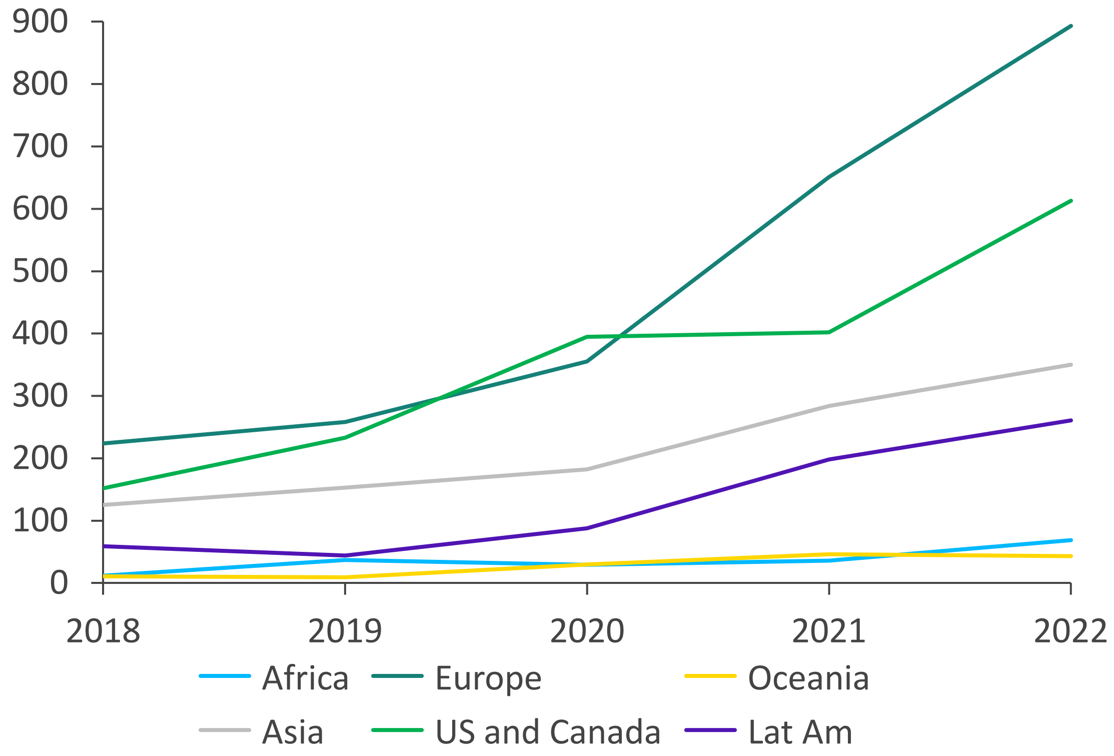
***Sources**: Press search*

Risks and consequences of greenwashing

Greenwashing risk accelerates in Europe and North America, accounting for 68% of global greenwashing cases

- In 2022, **1,850 analyzed companies**[1] were linked to an **incident related to misleading communication**, with **63% being first-timers**
- The risk of greenwashing in **Europe** has been rising, accounting for **40%** of the global figure in 2022. This is partly due to the 2020 **Europe Green Deal,** which is pushing companies to drastically reduce their emissions, and the **EU Taxonomy regulations**. These regulations, which require companies to disclose their green activities, are gradually being applied to large public-interest companies[2] and are expected to have a greater impact in the future, starting in 2025
- Greenwashing cases in **the US and Canada** have also surged to reach **28%** of global incidents recorded by 2022. Experts suggest that companies might be amplifying their sustainability claims to project compliance amid **rigorous environmental regulations in Canada and increased public awareness and scrutiny in both countries**

Number of companies with at least one ESG risk incident linked to both environmental footprint and misleading communication[1]



1) uses RepRisk's method to identify ESG incidents involving both environmental issues and misleading communication, covering both public and private entities. The graph depicts the number of entities facing these risks across regions over time, compared to the 2022 report; 2) An entity which is of significant public interest because of the nature of its business, or because its size, its number of employees or its corporate status is such that it has a wide range of stakeholders

***Sources:** Reprisk "On the rise: navigating the wave of greenwashing and social washing" (2023), KPMG "Get ready for the Corporate Sustainability Reporting Directive" (2023), European Commission, Press search*

Greenwashing can harm a company's reputation, lead to regulatory and legal issues, and cause financial losses

Greenwashing can result from a variety of factors, including **limited and incomplete data across the value chain, intentional or unintentional non-disclosure, inconsistent sustainability standards, corporate leadership's neglect of the environmental crisis, and a lack of incentives**. These elements can distort the true environmental impact of company practices and give rise to diverse risks.

REPUTATIONAL RISK

Greenwashing allegations can **damage consumer trust**, **prompt investor divestment**, and **pose challenges for companies** due to public criticism of sustainability practices

Companies that engage in greenwashing experience an average **decline of 1.34% in ACSI[1] customer satisfaction scores**, with each one-unit change in satisfaction resulting in a 0.032-unit change in EPS[2] and a 0.40-unit change in ROI

REGULATORY RISK

Although regulations are issued slowly, the impact of **sustainability, ESG regulations, and consumer laws can be substantial**

For instance, the UK digital markets, competition, and consumer bill may subject companies to **penalties reaching up to 10% of their' global turnover** for breaches of consumer law (likely to cover misleading sustainability claims)

LITIGATION RISK

Greenwashing-related civil litigation, particularly in climate cases, is increasing, posing **challenges and potential financial and reputational consequences**

Numerous companies are currently facing greenwashing lawsuits, resulting in **penalties reaching millions** (with recorded fines going up to USD 25 million), along with the **requirement to modify their products and inform consumers**, causing additional financial losses

1) The American Customer Satisfaction Index; 2) Earnings Per Share

Sources: *Makersite "The cost of greenwashing" (2023), Press search*

Trends and responses from Regulators, Customers and NGOs

In response to the global surge in greenwashing, regulators worldwide are drafting targeted laws to address this deceptive practice

Greenwashing related laws and regulations in effect:

The UK, Canada, and the EU address greenwashing through regulations related to unfair commercial practices, false advertising, or consumer protection. Additionally, they are currently implementing specific greenwashing regulations that will take effect in the upcoming years.

Canada

Canada has strict measures against greenwashing. The **Competition Act** criminalizes deceptive advertising, including greenwashing, across various channels. Additionally, individual Canadian territories have their own regulations to combat greenwashing

The EU

The EU combats greenwashing through regulations such as the **Unfair Commercial Practices Directive** and the **Taxonomy Regulation**. Starting in 2026, a ban on greenwashing, approved under the **Empowering Consumers for the Green Transition Directive**, will take effect.

The UK

In the UK, the **Consumer Protection Regulations** and the **Green Claims Code** combat greenwashing. Starting May 2024, the FCA requires authorized firms to adhere to **a new anti-greenwashing rule**, ensuring accuracy and fairness in sustainability claims

Greenwashing laws and regulations on the horizon:

Other countries, such as China, South Korea, and Singapore, are increasingly turning their attention to the issue of greenwashing. They recognize the absence of legal codes specifically targeting greenwashing and are exploring regulatory measures to combat it.

South Korea

South Korea leads **anti-greenwashing efforts in Asia, proposing legislation to fine companies for misleading the public about their green credentials**. If passed, Korea would be the first Asian nation to impose monetary penalties for greenwashing

Singapore

In Singapore, greenwashing is primarily regulated by **the Consumer Protection Act and the Advertising Standards Authority**. To prevent greenwashing, recent measures include **new criteria for banks and financial institutions to fund green activities** in key sectors.

China

Efforts are underway in China to **establish a system for combating greenwashing**, guided by existing laws such as the **Advertising Law and Anti-Unfair Competition Law**. However, the current scope for regulating greenwashing activities is limited.

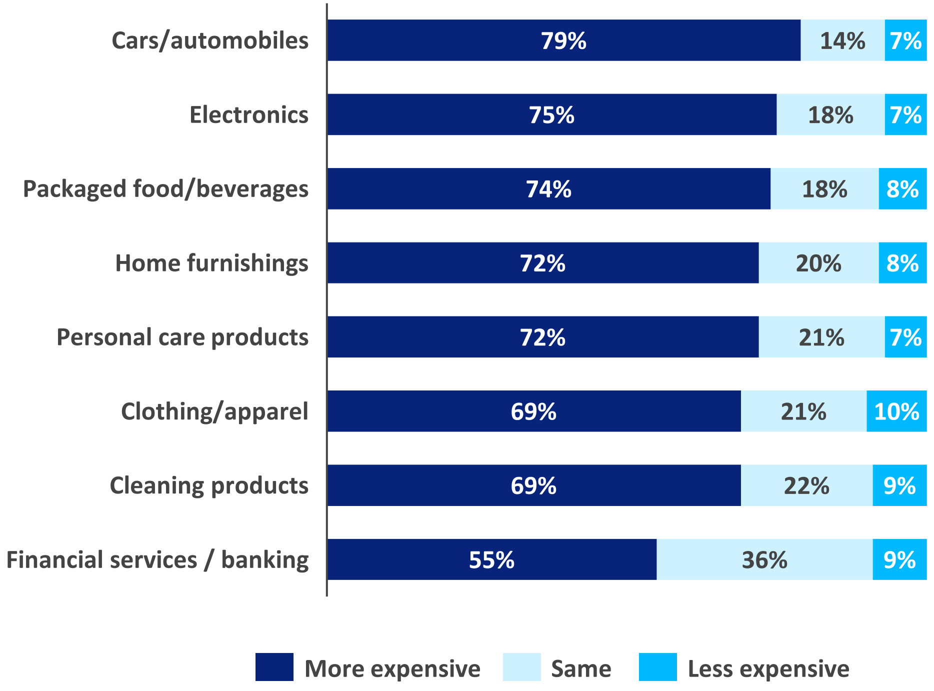
Sources: *Templars "Greenwashing: Risks and the Law in Nigeria" (2023), Herbert Smith Freehills, Press search*

Consumers are becoming more aware of greenwashing, but rising inflation makes it difficult for them to choose sustainable products

Greater public pressure and consumer awareness

- Globally, consumers seek environmentally conscious brands, with approximately **57%** expressing a willingness to change their purchasing behavior to help the environment
- A Nuremberg Institute survey of 8,000 consumers across eight countries reveals that **72% actively avoid businesses accused of greenwashing**
- However, there is still a gap between **consumer intention and action** due to various factors. One significant factor is **the affordability of sustainable options**, particularly in the automotive industry, where 79% consider these products to be more expensive
- The affordability issue is exacerbated by **rising inflation**, which has put sustainable living **out of financial reach** for a significant portion of the population. As a result, the share of consumers purchasing sustainable products has decreased from **61% in 2021 to 46% in 2023**
- This calls for brands to **prioritize affordability and accessibility**, potentially elevating the risk of greenwashing as they strive to meet consumer expectations

Perceptions of the price of environmentally friendly products vs. regular products



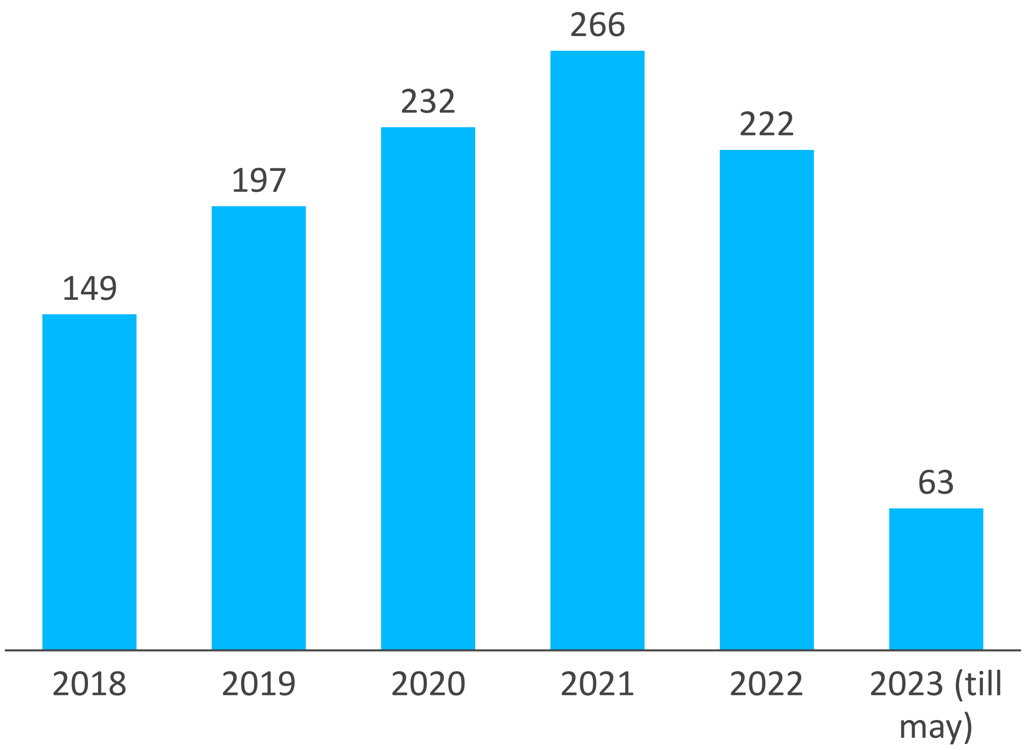
Sources: *Globescan "Healthy and sustainable living – 2022 Highlights report" (2022), Deloitte "Green products come of age" (2023), Press search*

Activists are increasingly spotlighting greenwashing using social media and legal action

NGOs and environmental groups combating greenwashing

- **Environmental activists, NGOs, and charities** have **long exposed discrepancies** between marketing claims and actual environmental practices, ranging from carbon emissions to plastic pollution
- Frequently, major corporations have managed to **avoid these allegations** with effective public relations efforts, **emerging relatively unharmed**
- However, **activists are becoming more adept at publicizing claims of greenwashing**, utilizing social media, and, in certain instances, pursuing legal action against implicated companies
- In fact, more **than 2,341 cases have been documented in climate litigation databases till May 2023**, with about two-thirds (1,557) filed since 2015. However, the **growth rate has slowed**, partly due to the peak in US case numbers in 2020, the final year of the Trump presidency. Non-US cases have shown steady growth, with a notable surge in 2021
- If more greenwashing regulations emerge, environmental groups may **increasingly use legal proceedings** to pressure companies into changing their climate strategies, **prioritizing public influence over seeking compensation**

Total climate change cases over time until May 2023



Sources: *LSE "Global trends in climate change litigation: 2023 snapshot" (2023), Press search*

Conclusion

As the world increasingly prioritizes sustainability and net-zero initiatives, there is a growing demand for environmentally friendly products. This demand is pushing industries towards more eco-friendly practices. However, this transformative movement also presents a **potential breeding ground for greenwashing cases**.

As regulatory frameworks worldwide become more robust, companies that engage in deceptive **environmental marketing practices may face stricter penalties**, including significant legal and financial consequences. The widespread nature of **consumers' environmentally conscious choices** adds complexity to this scenario, heightening the **potential for more greenwashing cases to emerge**.

Looking ahead, several factors are likely to influence this trend. The issuance of regulations targeting greenwashing may **increase the stakes** for companies engaging in these practices and **the associated risks**. Additionally, the involvement of NGOs and advocacy groups in exposing deceptive practices, along with the increasing public awareness and preference for sustainable products and companies, **could alter the dynamics of greenwashing.**

As the landscape continues to evolve, companies may face increasing pressure to align with genuine environmental commitments to avoid the consequences of greenwashing.

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