



# Green Watch

## Greenwashing: Definitions, Detection & Disclosure

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*March 7<sup>th</sup> 2024, Luxembourg*

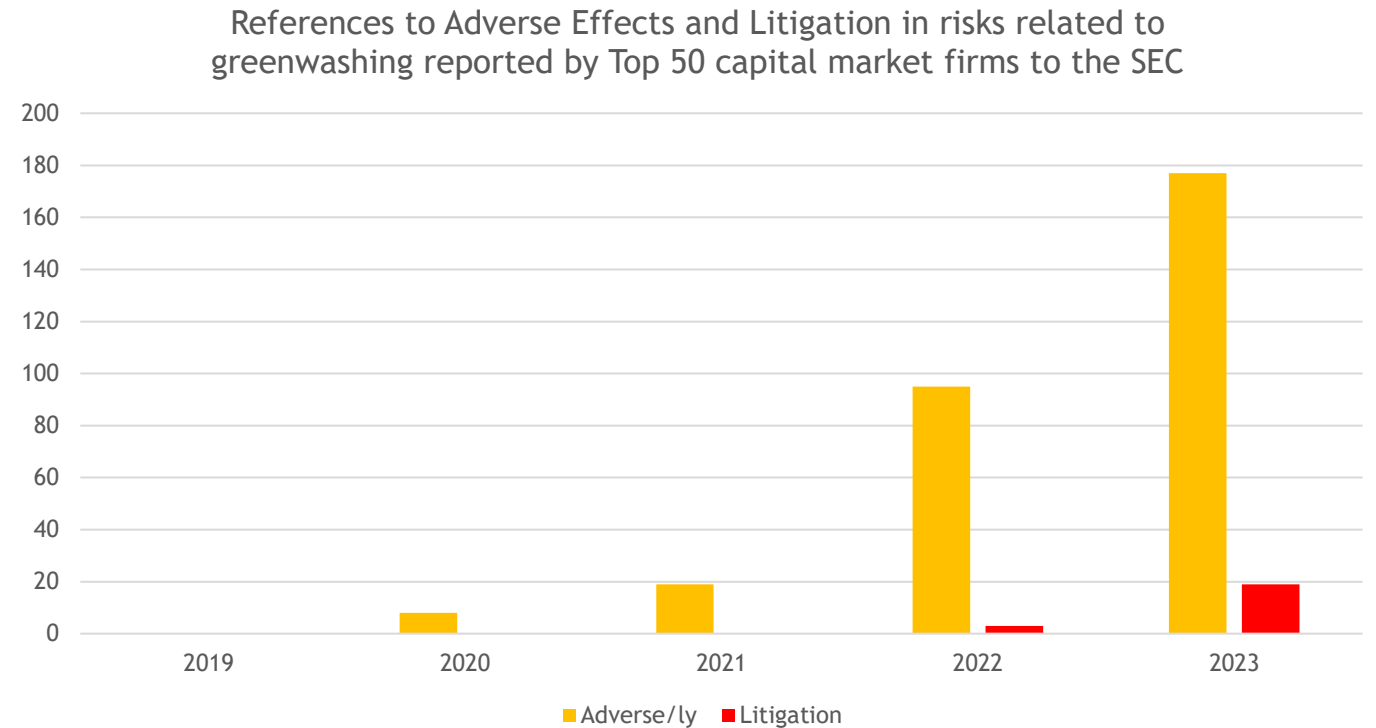


University College Dublin  
Ireland's Global University



# Agenda

- ▶ Background
- ▶ Defining Greenwashing broadly
- ▶ Defining Greenwashing narrowly (Example: Climate Change Mitigation)
- ▶ Detecting Greenwashing narrowly (Example: Climate Change Mitigation)
- ▶ Live Trends in Greenwashing Risk Disclosure
- ▶ Conclusion



# Background

In March 2023, the European Commission adopted a [proposal](#) for a Directive on Green Claims. In preparation for this Directive, the EC published the following statistics in 2020 based on joint research with national consumer authorities, mystery shopping 1,305 products and analysing 1,616 randomly selected advertisements in 15 member states. These were Czechia, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Poland, Portugal, Spain, and Sweden.



53% of green claims give vague, misleading or unfounded information



40% of claims have no supporting evidence



Half of all green labels offer weak or non-existent verification



There are 230 sustainability labels and 100 green energy labels in the EU, with vastly different levels of transparency

# Defining Greenwashing broadly

[based on Alessi et al. (2024) & Willis et al. (2023)]

Mechanism	Classic Application	Advanced Application
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Attention Timestamping	Delayed Disclosure	Greenrinsing of Ambitions



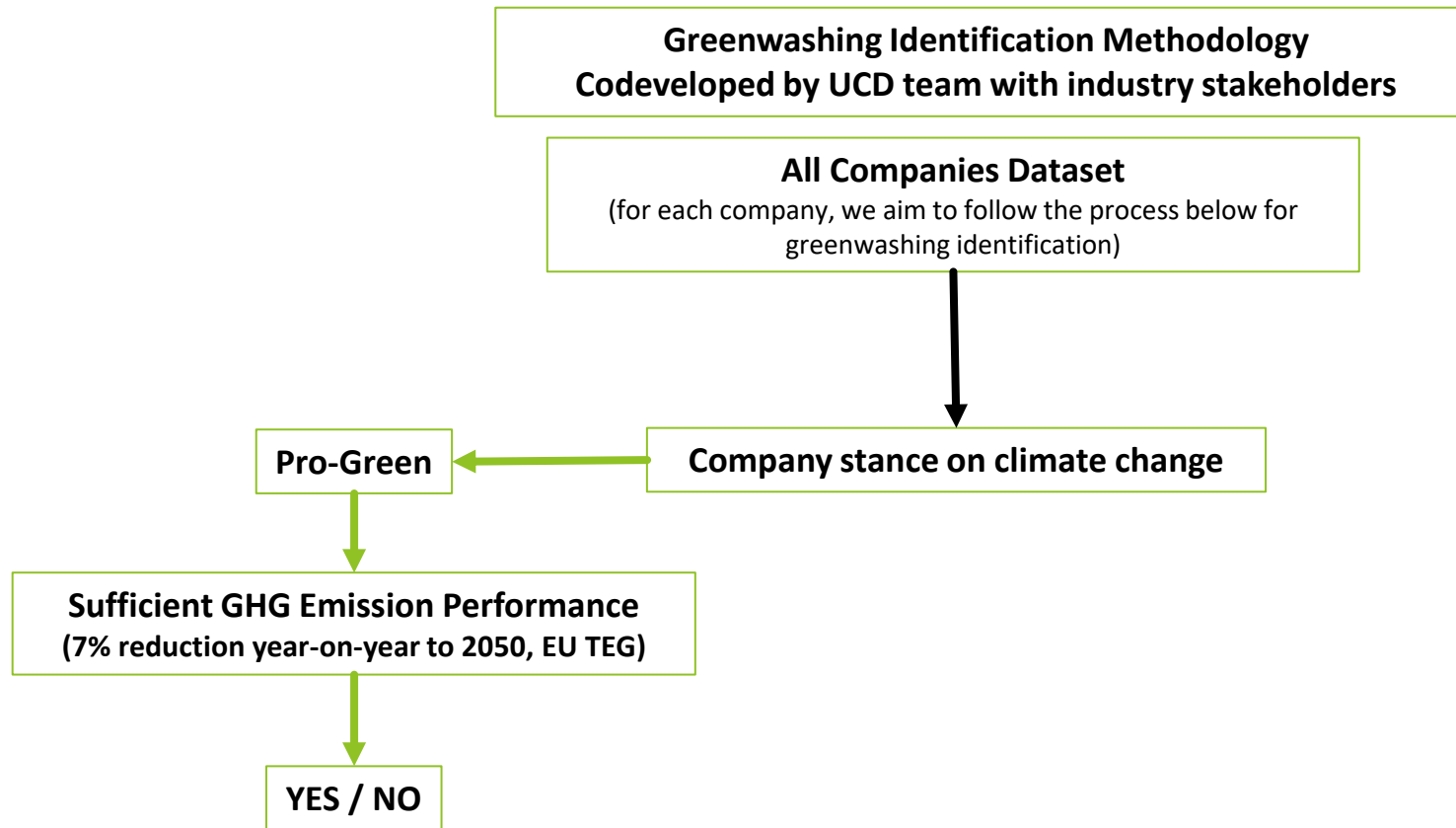
**Greenwashing Identification Methodology**  
Codeveloped by UCD team with industry stakeholders

**All Companies Dataset**  
(for each company, we aim to follow the process below for greenwashing identification)



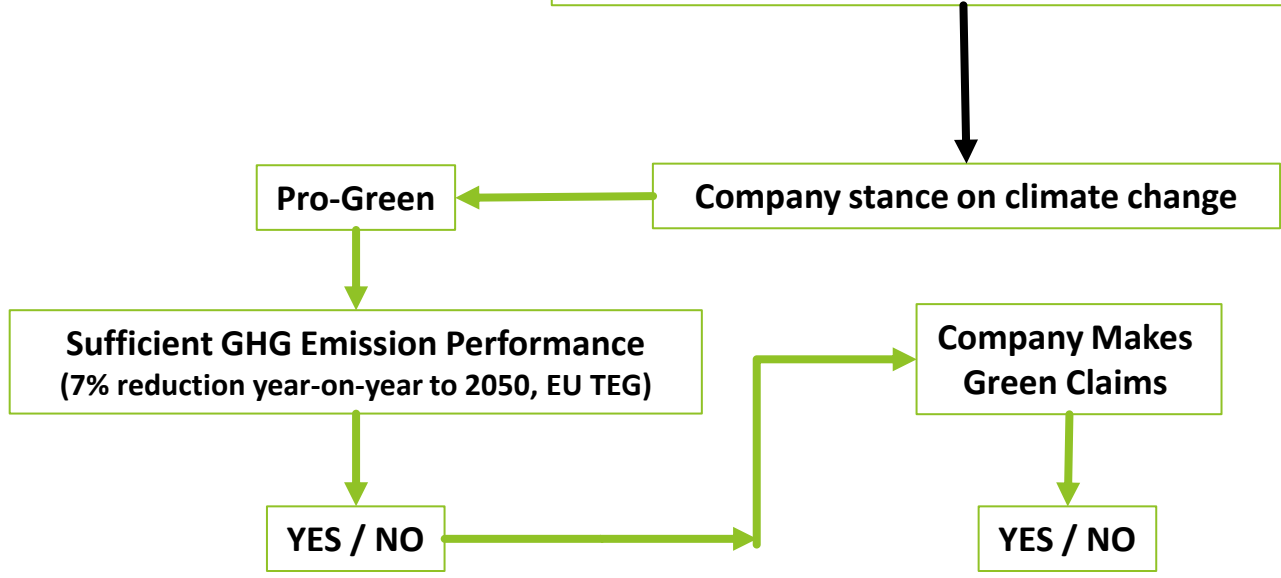
**Company stance on climate change**





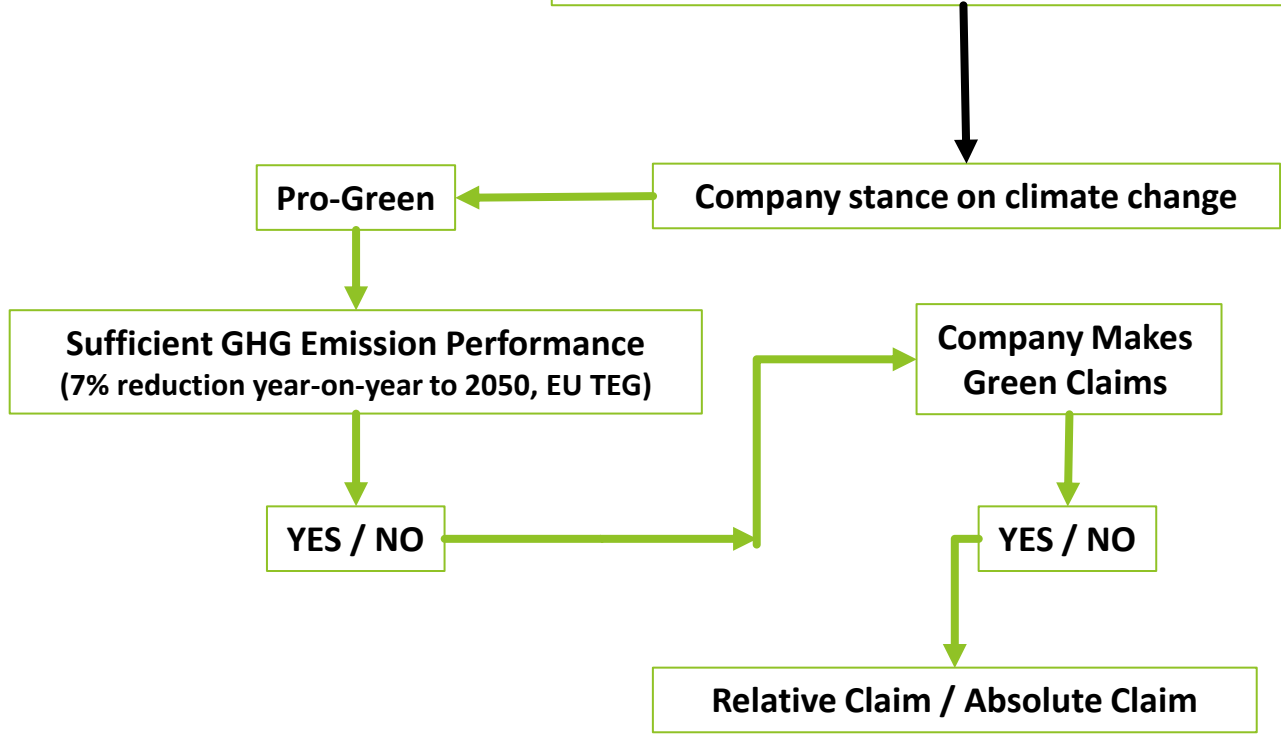
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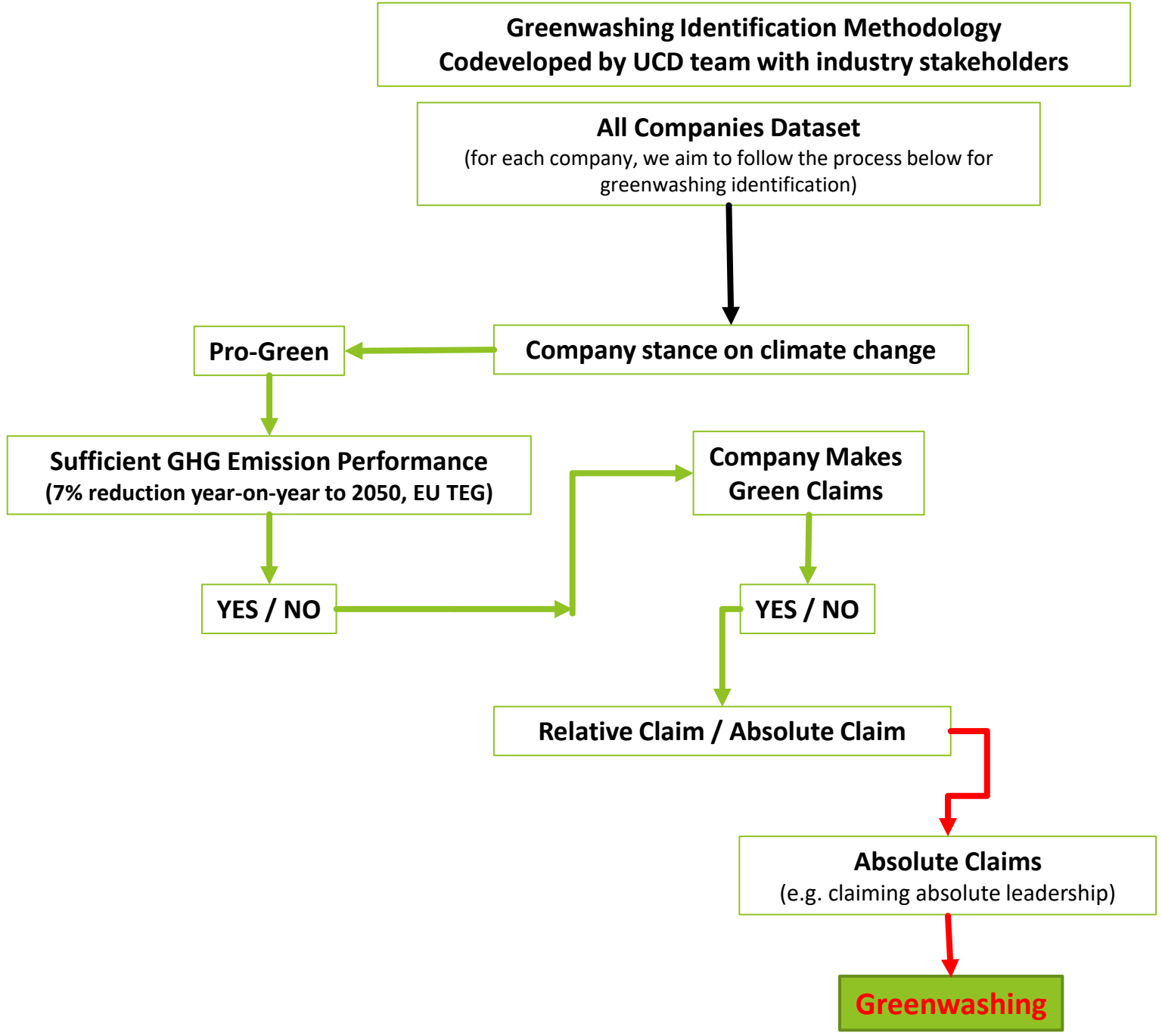
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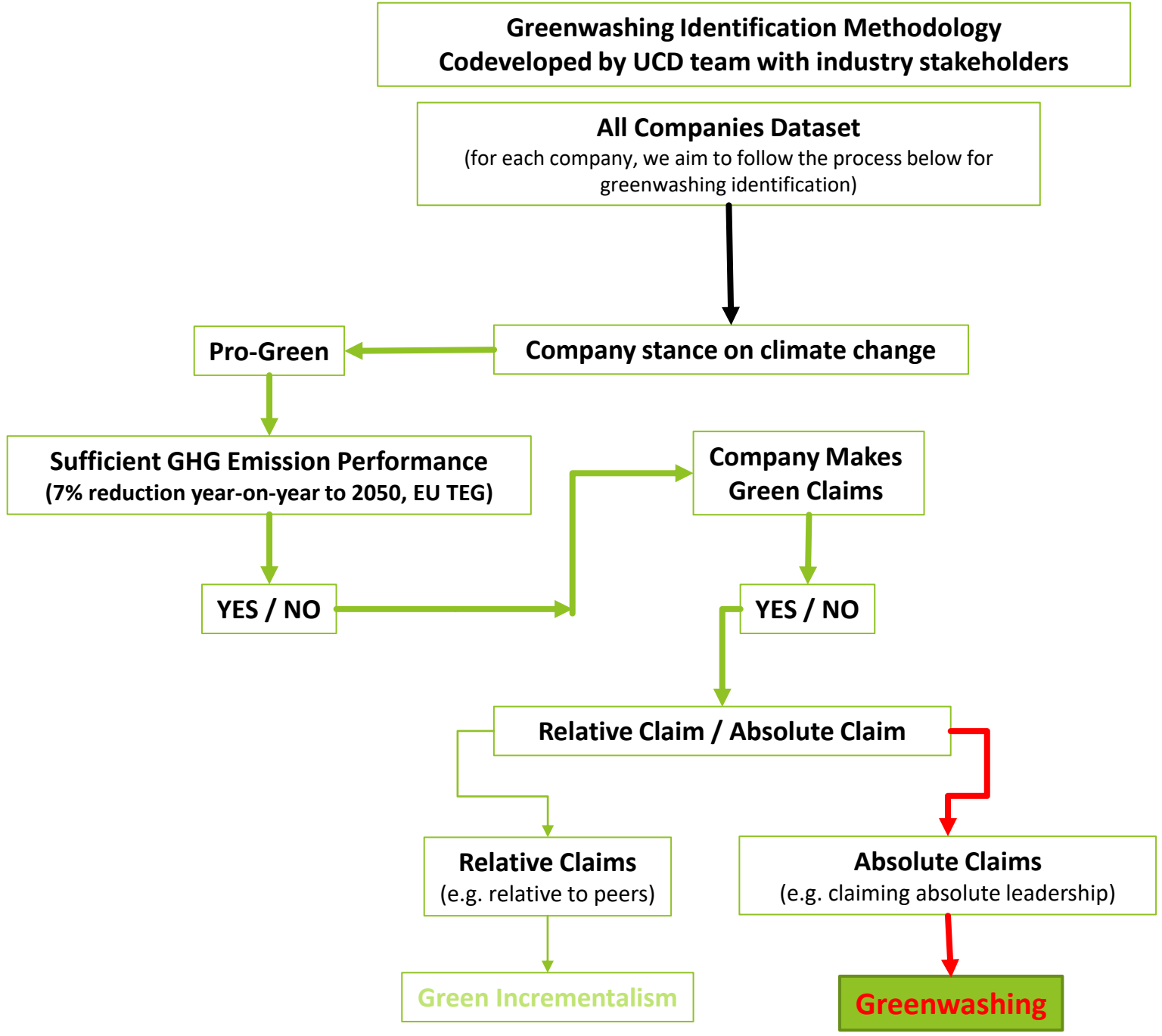


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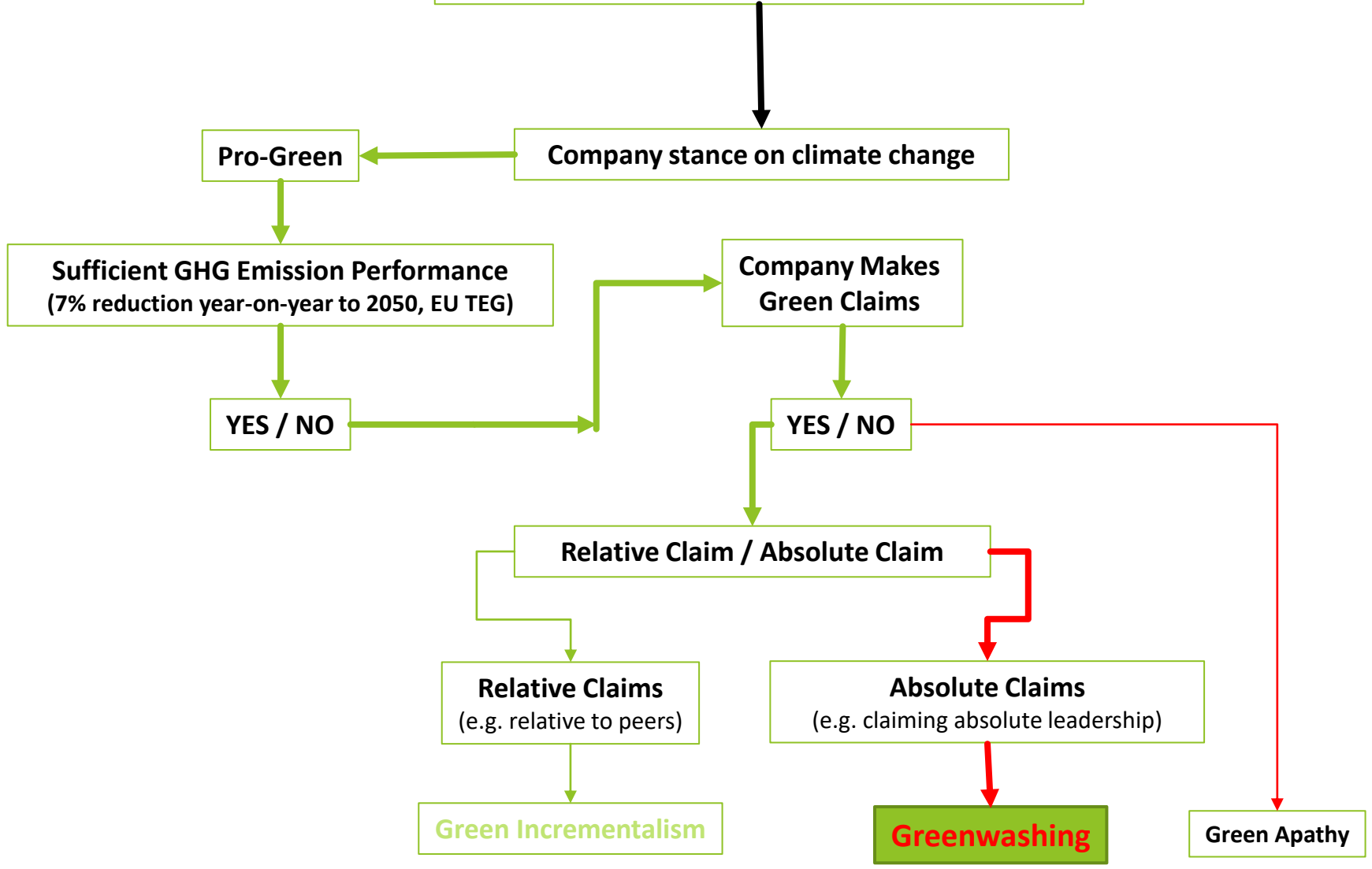






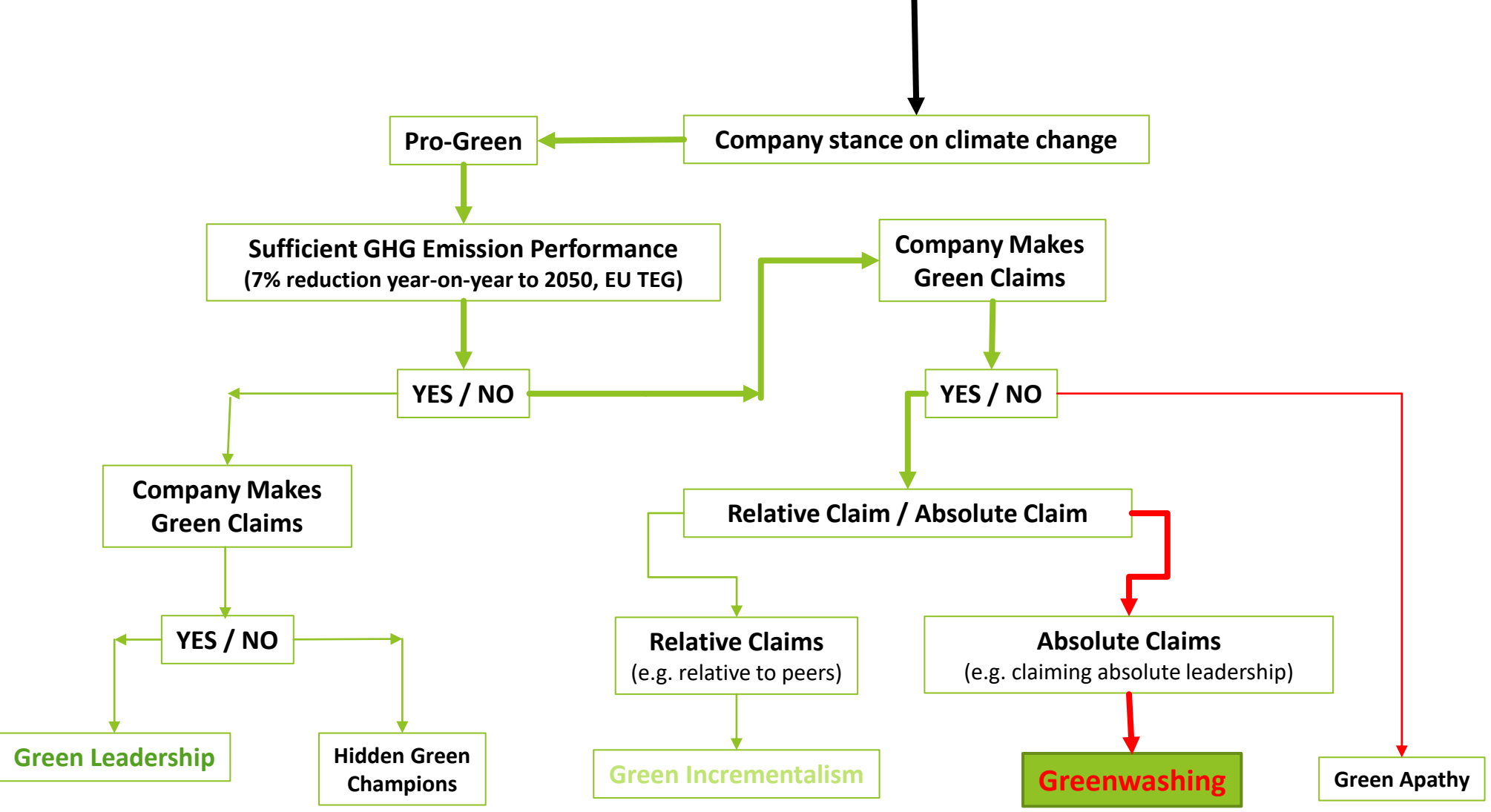
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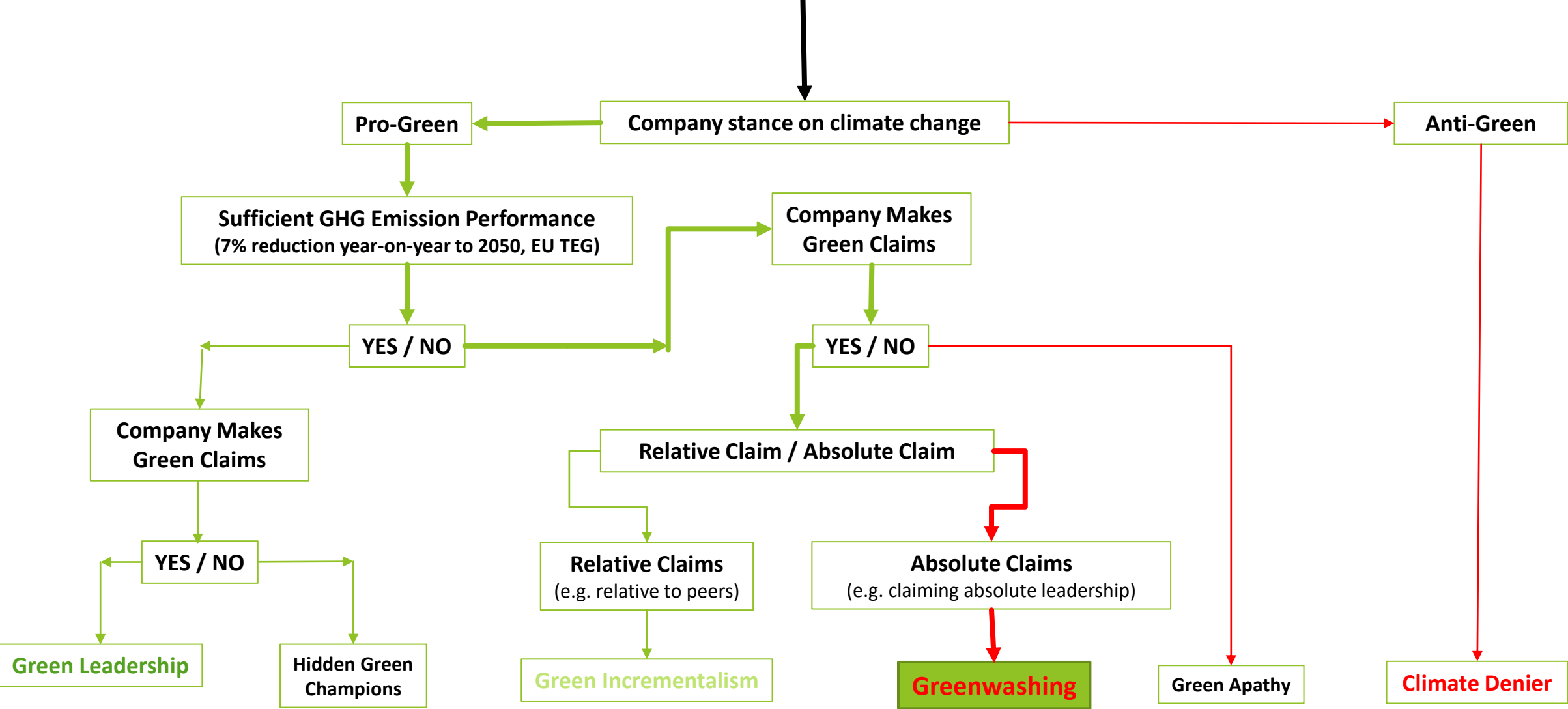
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# Detecting Greenwashing by Contrasting

Company	Subsector	Claim	Claimer Name	Position Claimer	Source	An annual Emission Performance (3y mean)
Hennes & Mauritz AB	Retailing	Our sustainability work was recognised by, among others, the Dow Jones Sustainability World Index for the 11th consecutive year. As one of only 12 global retail companies in the index, we are assessed as a leader in environmental, social and governance performance	Helena Helmersson	CEO	<a href="https://hmgroupp.com/wp-content/uploads/2023/03/HM-Group-Annual-and-Sustainability-Report-2022.pdf">https://hmgroupp.com/wp-content/uploads/2023/03/HM-Group-Annual-and-Sustainability-Report-2022.pdf</a>	0.3%

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Santos Ltd	Oil & Gas - Upstream & Integrated	At Santos, our purpose and vision is to provide cleaner energy that is both affordable and sustainable, to help create a better world for everyone.	Kevin Gallagher	MD and CEO	<a href="https://www.santos.com/wp-content/uploads/2023/06/2023-Sustainability-Report.pdf">https://www.santos.com/wp-content/uploads/2023/06/2023-Sustainability-Report.pdf</a>	11.3%

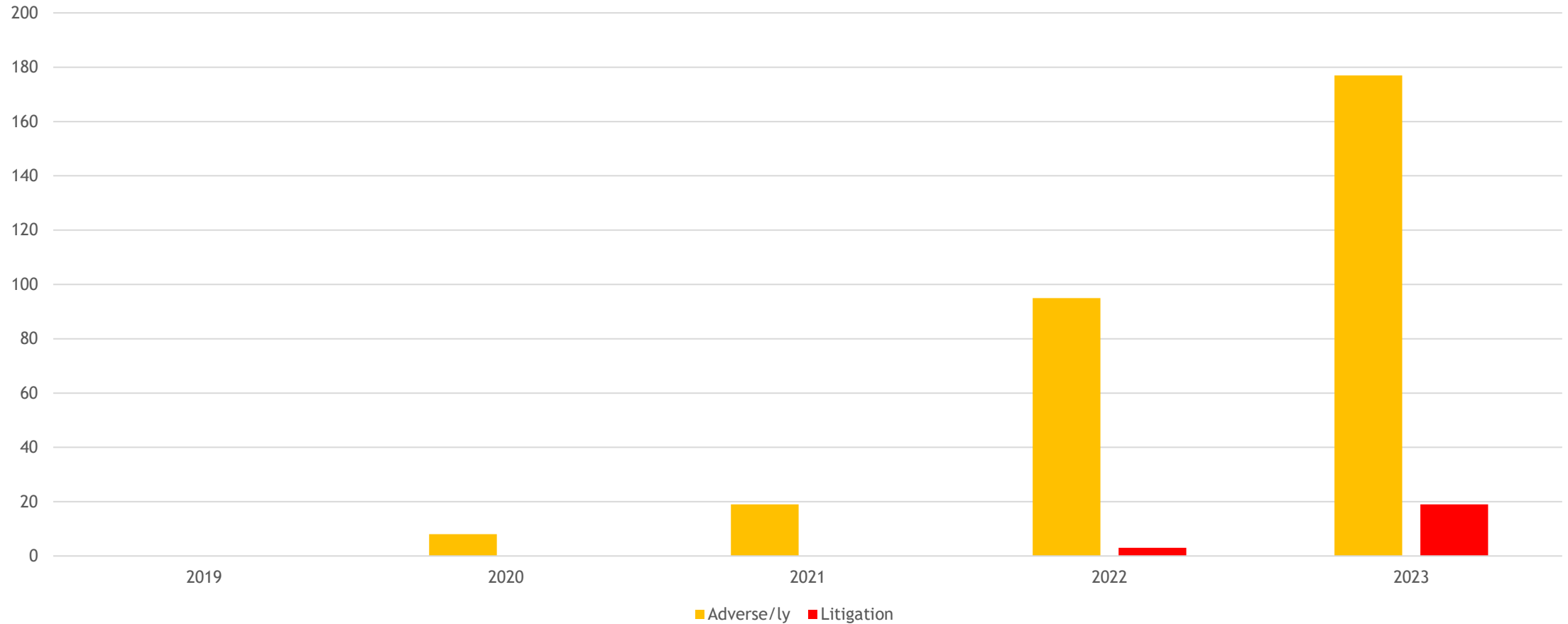
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Santos Ltd	Oil & Gas - Upstream & Integrated	At Santos, our purpose and vision is to provide cleaner energy that is both affordable and sustainable, to help create a better world for everyone.	Kevin Gallagher	MD and CEO	<a href="https://www.santos.com/wp-content/uploads/2023/06/2023-Sustainability-Report.pdf">https://www.santos.com/wp-content/uploads/2023/06/2023-Sustainability-Report.pdf</a>	11.3%
ServiceNow Inc	Software	ServiceNow is committed to leading in ESG—as both exemplar and enabler. For our own operations, we take a long-term view of impact, and we take great care to make progress every single day.	Bill McDermott	Chairman and CEO	<a href="https://www.servicenow.com/standard/other-documents/servicenow-global-impact-report-2023.html">https://www.servicenow.com/standard/other-documents/servicenow-global-impact-report-2023.html</a>	28.2%

# Disclosure of Greenwashing Risk

[joint research with J. Streur]

References to Adverse Effects and Litigation in risks related to greenwashing reported by Top 50 capital market firms to the SEC



## Reasons for Disclosure:

# 1. Lack of Trust in Portfolio Companies

[joint research with J. Streur]

- ▶ Back in 2020, Ares Management Corp was the first capital markets firm to report to the SEC that there "could be adverse [impacts] to our portfolio companies if they are perceived to be less valuable as a consequence of, e.g., their carbon footprint or '*greenwashing*'", whereby they defined 'greenwashing' succinctly as "the holding out of a product as having green or sustainable characteristics where this is not, in fact, the case".

## Disclosure:

# 2. Lack of Trust in Third Party Data Providers

[joint research with J. Streur]

- ▶ TPG's executives, for instance, explained the SEC in 2023 that "as part of our ESG practices, we rely on the services and methodologies of Y Analytics, an affiliated public benefit organization. Such services and methodologies by Y Analytics could [1] prove to be *inaccurate* and [2] there can be *no assurance* that they will be successful."
- ▶ In an extensive disclosure, MSCI's executives themselves write in 2023 to the SEC that "our ESG and Climate offerings ... may insert MSCI into a public spotlight .... Certain of our clients ... are increasingly the subject of additional disclosure requirements, as well as media and political scrutiny, that are focused on preventing asset managers from *greenwashing* ... Use of our products by these investors could draw MSCI into *debates about and criticisms of greenwashing*."
- ▶ While MSCI's executives do not explicitly admit potential inaccuracies in their own data, they explicitly discuss that "*[e]rrors and other actions by MSCI competitors* could also damage the reputation of the industries that we operate in ...."

## Disclosure:

### 3. Lack of Trust in Internal Processes

[joint research with J. Streur]

- ▶ In their own words, executives are not always confident that their own teams are able to comply with relevant legislation and avoid being seen to greenwash. Executives of KKR wrote that “the SEC proposed a new rule [of October 2022] and related amendments to prohibit SEC-registered investment advisers from outsourcing certain services or functions ... are expected to increase the costs of compliance, expose us to ... penalties if we are unable to comply, and could in certain instances reduce our revenues.”
- ▶ Blackstone executives acknowledged to the SEC in 2023 that EU’s “SFDR [regulation] primarily impacts our 50 AIFMs by requiring certain disclosures in relation to sustainability risks and consideration of so-called ‘principal adverse impacts’. ... [T]here is a risk of inadvertent mischaracterization classification of certain of our products, which could lead to claims by investors for mis-selling and/or regulatory enforcement action, ... As a consequence, we may be unable to ... fully comply with some requirements of these new regimes.“

## Disclosure:

### 4. “Reasoned” Decision to Greenwash

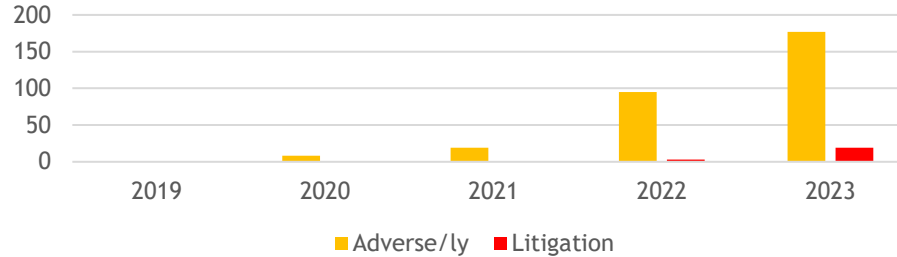
[joint research with J. Streur]

- ▶ The fourth potential reason is the least genuine, namely that executives may themselves decide to not comply with relevant legislation such as SFDR and hence be the target of greenwashing related enforcement actions.
- ▶ As Blackstone openly admitted to the SEC in 2023: “[W]e may ... *make a reasoned decision not to fully comply* with the requirements of these new [EU] regimes. This too could lead to regulatory enforcement action ...”



# Conclusion

References to Adverse Effects and Litigation in risks related to greenwashing reported by Top 50 capital market firms to the SEC



- ▶ Greenwashing Risks are exponentially increasing!
- ▶ Classic Greenwashing activities are detectable (i.e. claiming green leadership while increasing CO2e emissions 28.2% p.a. on average ??!??)
- ▶ Advanced Greenwashing patterns emerge, which need considerable effort to detect - particularly Greenrinsing is challenging
- ▶ 4 Reasons emerge for Greenwashing Risks:
  - ▶ Lack of Trust in
    - ▶ Portfolio Companies
    - ▶ Third Party Data Provider
    - ▶ Internal Processes
  - ▶ Deliberate Decision to Greenwash even when legal action is very likely → assuming this is a Cost-Benefit type decisions, do costs need to be punitive?