

verimpact

ESG and Greenwashing



Thessaloniki, May 22, 2023

Spyros Kouvelis, Co-Founder, Verimpact
Director, Institute for Sustainable Development at EPLO





What is Greenwashing?



Misleading or deceptive publicity disseminated by an organization to present an environmentally responsible public image

Google's English Dictionary by Oxford Languages

Conveying a false impression or misleading information about how a company's operation or products are environmentally sound.

Greenwashing Examples



In 2015, the U.S. Environmental Protection Agency (EPA) discovered German motor vehicle manufacturer, Volkswagen, cheated on federal emissions tests to make its vehicles seem less harmful to the environment than they were.

Expected to make some noise:

Bedding company claiming to use natural rubber, while it is in fact using **Nitrile**, a chemical compound also used for car tires.

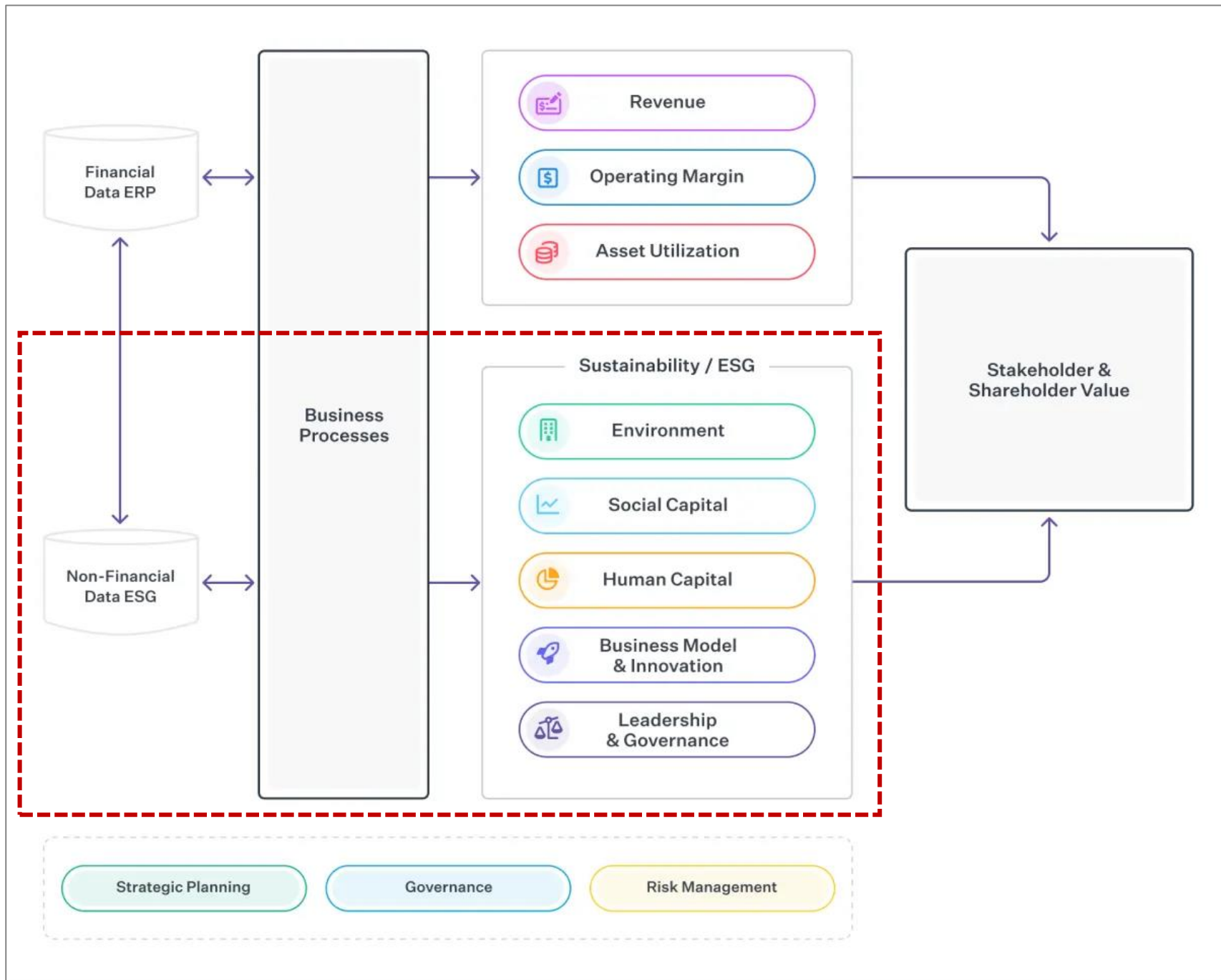




Greenwashing in relation to ESG



ESG Market



Beware of greenwashing

Sustainability and social responsibility claims are often false or misleading, as supply chain and manufacturing processes are complex and hidden. Companies need to dig deep to verify sustainability practices from suppliers.

What is greenwashing and bluewashing?

GREENWASHING

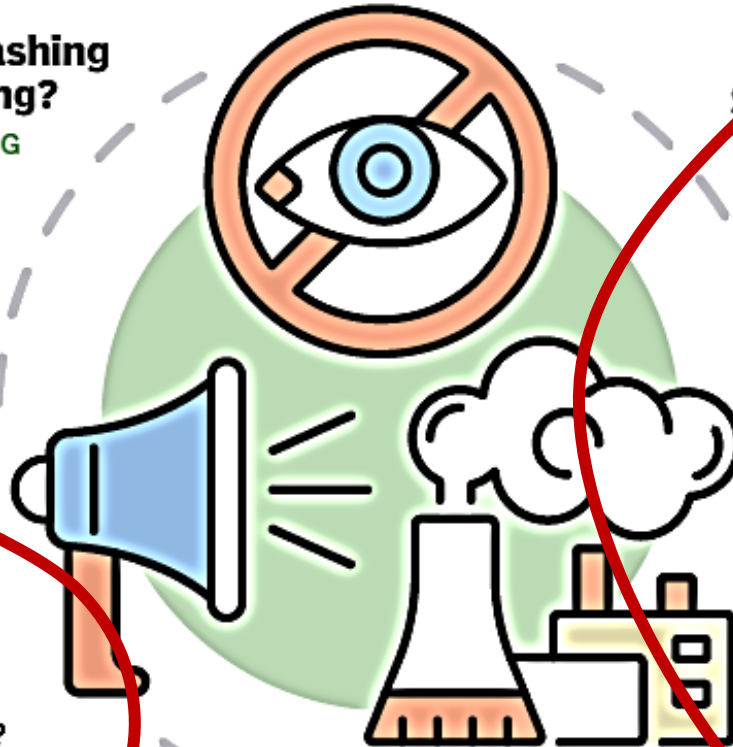
The practice of issuing false or unverified claims connected to the environmental aspects of a product.

BLUEWASHING

The practice of issuing false or unverified claims connected to the social aspects of a product.

Choosing an ecolabel— does it include:

- Up-to-date environmental and social responsibility criteria?
- Mandatory independent verification of compliance and proof for the purchaser?
 - System of industry accountability and consequences?



Social responsibility issues in the supply chain

LABOR LAW VIOLATIONS

excessive working hours; underage workers; discrimination; low wages

LACK OF FREEDOM OF ASSOCIATION

restricted ability of workers to organize and negotiate with management

WORKER HEALTH AND SAFETY

inadequate protection against chemicals; poor safety measures; lack of necessary permits

FORCED LABOR

human trafficking; debt slavery; threat of violence; retention of passports





Legislation on Greenwashing



1. EU Taxonomy

Protects Private investors from Greenwashing

2. Corporate Sustainability Reporting Directive (CSRD)

- Aims to end greenwashing
- Strengthen the EU's social market economy
- Lay the groundwork for sustainability reporting standards at global level

3. EU Green Claims Directive

Aims to amend EU consumer protection laws to tackle unfair commercial practices that mislead consumers away from sustainable consumption choices

- External assurance of ESG data, processes and reporting will be required
- Accuracy of ESG and sustainability reporting will decrease greenwashing risk



EU Taxonomy

The Directive

The EU Taxonomy's definitions and rules determine which economic activities are environmentally sustainable.

As a classification system, the Taxonomy was created to address greenwashing by enabling market participants to identify and invest in sustainable assets with more confidence.

What to remember

- Article 6 — Transparency of financial products that promote environmental characteristics in pre-contractual disclosures and in periodic reports.
- Article 8 ("light green") funds "promote environmental or social characteristics"
- Article 9 ("dark green") funds constitute "environmentally sustainable investments"

CSRD - Corporate Sustainability Reporting Directive

The Directive

- The CSRD introduces more detailed reporting requirements on companies' impact on the environment, human rights and social standards, based on common criteria in line with EU's climate goals.
- To ensure companies are providing reliable information and avoid greenwashing, they will be subject to independent auditing and certification.
- **Financial** and **sustainability** reporting will be on an equal footing and investors will have comparable and reliable data. Digital access to sustainability information will also have to be guaranteed.

Timeline

- 1 January 2024: large public-interest companies (>500 employees), reports due in 2025;
- 1 January 2025: large companies (>250 employees / €40m turnover / €20m assets), reports due in 2026;
- 1 January 2026: listed SMEs and other undertakings, reports due in 2027 (SMEs can opt-out until 2028)

EU Green Claims Directive

Proposed in March 2023 to address **greenwashing** concerns due to misleading EU consumers over environmental claims.

It **applies to most EU operating companies** – financial & other sectors with existing rules on environmental claims are exempt.

EU Context

- Green marketing in the EU has been proliferating due to consumers interest.
- More than 75% of the products on the market carry an implicit or explicit environmental claim. Yet, according to the EC, **more than half of green claims are vague, misleading or unfounded**
- Almost **half of the 230 ecolabels** available in the EU have very weak or no verification procedures.

EU Green Claims Directive (cont.)

Companies **will be required to:**

- Substantiate environmental claims using **Life Cycle Assessment**
- Communicate them **accurately and holistically**
- Have them **externally** verified

Phrases like 'net zero', 'carbon neutral' and 'eco-friendly' would be prohibited in advertisements, social media posts, or packaging unless substantiated and verified.

Companies must have a robust environmental claims management framework to meet the new requirements. This will require changes to key elements of their operating model, from organisational capabilities to data management and technology, and governance structures.

Robust management of environmental claims could help companies reduce reputational and litigation risks, support brand value, and guide better decision-making. However, some companies may find it more cost-effective to limit their environmental claims instead.





Reporting



Companies subject to the CSRD will have to **report according to European Sustainability Reporting Standards (ESRS)**

The draft standards are **developed by the EFRAG** (European Financial Reporting Advisory Group) an independent body bringing together various different stakeholders.

The standards will be **tailored to EU policies**, while building on and contributing to **international standardisation initiatives**.

The Commission should adopt the **first set of standards by mid-2023**, based on the draft standards published by EFRAG in November 2022.



Green-hushing



- 76% of chief marketing officers fear greenwashing, and shy away from marketing their ESG efforts fearing greenwashing claims.
- To avoid these claims, marketers should use caution if they advertise sustainability efforts **that only marginally reduce** their organization's environmental effect.

"If you are a large energy company that invests in fossil fuels, and you start advertising some initiatives that are pretty much irrelevant given the scope of your environmental impact, you're going to be accused of greenwashing."



Green-botching?



Green-botching: well-meant environmental measures that are being implemented so badly that they backfire or create bottlenecks

- Promoting EVs, but not have enough charging stations available
- Ban single use plastics without securing alternative solutions



Conclusion



Suggestions to overcome greenwashing, green-hushing and green-botching

- Engage with your **stakeholders** (employees, customers, suppliers, community groups) when developing and implementing sustainability initiatives to highlight potential issues and ensure initiatives are well-received.
- Be **transparent** through reports to celebrate your progress and be open about any challenges you face to build trust with stakeholders.
- Concentrate your greening efforts on your **Core Business**, not fringe activities.
- **Don't force fit** applications – implement sustainability initiatives where the concept and technology make sense.
- **Educate your team** from top to bottom on the correct practices related to your business operations. This practice of learning, educating and growing should be one of the core values of any business when they take the step towards becoming more sustainable.



verimpact

Thank you!

s.kouvelis@verimpact.com

