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« Greenwashing » : beware of announcement effects!

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Introduction

How can we spot the false promises and lies of companies claiming to take into consideration ESG challenges? By adopting a professional investor's approach, which concretely evaluates actions beyond declarations of intent.

For almost a year now, ESG regulations applicable to companies (listed and unlisted) have seen forced-march progress. The "environmental taxonomy" now requires European companies to classify their economic activities according to their impact on the environment, and to publish their level of alignment. From 2024, new sustainability reporting obligations (CSRD directive) will compel companies to publish highly detailed information (on environmental, social and governance issues) in line with European standards. And the social taxonomy is already well underway...

In this increasingly restrictive context, many companies, taking advantage of the growing appeal of sustainable finance and still unclear regulations, are still engaging in misleading communication practices. There is sometimes a yawning gulf between the display of good intentions and reality. Thus, the hunt for "greenwashing" has become a crucial issue for all investors wishing to select issuers that truly respect ESG criteria (environment, social, governance).

The French Agency for Ecological Transition (ADEME) draws investors' attention to the use of vague words and unclear visuals, and to the promotion of data based on non-existent evidence or questionable self-certifications, while their actions contradict the fine promises made. Furthermore, the lack of information or the highlighting of irrelevant points should alert the scrupulous investor.

Carbon neutrality: Scope 1 and 2 measurements alone are insufficient

Today, governments and companies are engaged in a long-distance race: achieving carbon neutrality by 2050 in order to meet the commitments made in the 2015 Paris Agreement. Carbon neutrality simply means that the emitter in question must not emit more greenhouse gases (GHGs) than it absorbs. However, the calculation of carbon emissions remains open to dispute.

What "scope" are we talking about? If we only consider Scope 1 emissions (direct emissions of greenhouse gases by an emitter) and Scope 2 (indirect emissions of greenhouse gases linked to the consumption of energy necessary for the manufacture of a product or service), we do not take into account Scope 3, which enables us to assess direct and indirect emissions in their entirety, for each stage in the value chain. This presupposes the availability of the data needed to calculate upstream and downstream emissions.

However, the amount of Scope 3 emissions can be much higher than that of Scope 1 and 2. In addition, the abusive use of carbon offsetting measures can distort the concept of carbon neutrality and mislead the public. For example, a major oil company may claim to be carbon neutral (by planting trees in Asia) while continuing to develop new oil and gas projects (in Africa).

In addition, agrofuels, praised as transitional energies, are now being challenged if we take into account all greenhouse gas emissions throughout their life cycle.

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Environmental promises: the devil is in the detail

The promise of environmental protection made by many industrial groups often conceals a very different reality. Take the example of a steel producer whose 2022 annual report highlights its commitment to reducing water consumption and protecting biodiversity and ecosystems. Problem: no quantitative targets are set, and no concrete programs implemented. On the contrary, we discover that water consumption per tonne of steel produced by this steelmaker has risen from 2.7 m3/tonne of steel in 2021 to 3.7 m3/tonne of steel last year.

Meanwhile, another major international chemical group loudly proclaims its commitment to reducing its environmental impact and developing production techniques that benefit the planet. At the same time, however, the group has to answer for a conviction in the United States in a case involving the contamination of wastewater with PCBs, a carcinogenic and environmentally harmful substance officially banned in 1979.

Finally, there's a famous clothing brand that boasts the use of organic cotton and recycled polyester. However, no independent label certifies the organic nature of the cotton used. What's more, washing recycled polyester releases micro-particles of plastic into the water, which the company is careful not to mention.

Climate trajectory: a necessarily collective effort

Companies wishing to make a commitment to the environment must go beyond mere announcement, and define clear, concrete objectives certified by independent labels, to avoid being accused of "greenwashing". They must also clearly explain how ambitious climate objectives (emission reduction, trajectory, etc.) can be achieved through actions undertaken with key stakeholders (suppliers, customers).

Schneider Electric, for example, has set short and long-term absolute (and not relative) emissions reduction targets for all its scopes (1, 2 and 3). To help achieve these ambitious targets, it has decided to support its top 1,000 suppliers in reducing their CO_2 emissions by 50% by 2025. This is proof that some companies are playing along, and that the role of investors is precisely to discern truly committed emitters (yes, they do exist!) from those who take advantage of the still vague contours of the regulations.

However, those regulations are improving, and while the disappearance of "greenwashing" is not imminent, it will become increasingly difficult for companies disclosing misleading or incomplete information to slip through the net of responsible finance. Investors, analysts, non-governmental organizations (NGOs) and savers are now keeping a close watch.

Going forward, companies that have focused too much on communication and not on implementing concrete measures risk losing all credibility with the financial community and society as a whole.

CSRD

The CSRD - Corporate Sustainability Reporting Directive - aims to foster the transition to a sustainable global economy, taking into account social justice and environmental protection.

It will soon replace the Non-Financial Reporting Directive (NFRD), in order to reinforce the European Union's objectives in terms of corporate transparency.

The CSRD will extend the requirements of the NFRD and apply them to a larger number of companies (over 52,000 are concerned), while improving the content of sustainability reports. Companies will be required to provide information relating to sustainability and climate change issues, and to assess the impact of their activities on the environment and society in general.

ADEME

ADEME stands for Agence De l'Environnement et de la Maîtrise de l'Énergie (French Agency for Ecological Transition).

Created in 1991, this public establishment of an industrial and commercial nature is placed under the supervision of the Ministries of Higher Education, Research and Innovation and Ecological and Solidary Transition.

ADEME is involved in the implementation of public policies in the fields of the environment, energy and sustainable development. It offers its expertise to companies, local authorities and public authorities, as well as to the general public. The agency's aim is to help its various interlocutors make progress in their environmental approach.

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