

GUILTY OF GREENWASHING

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Prior to 2015, Volkswagen had touted itself as an environmentally conscious option for drivers across America and around the world. Starting in 2009, Volkswagen launched a massive North American marketing campaign to promote their “clean diesel” cars¹, winning customers over with claims of “going green” through low emissions. “Hybrids? They're so last year,” read one ad. “Now

¹ Pemberton, 2015.

going green doesn't have to feel like you're going green.”²

Volkswagen even vowed in a 2014 sustainability report to be “the world's most environmentally compatible automaker” by 2018³. In the same report, the company patted itself on the back for being a leader in environmentally friendly products.

The scenario is a classic

² Associated Press, 2016.
³ Volkswagen, 2014.

example of greenwashing: when a company invests more time and money into marketing themselves as environmentally friendly than on minimizing their actual environmental impact⁴. Volkswagen is far from the first company—or even the first automaker⁵—to get caught up in exaggerating their green efforts. But considering that Volkswagen owned 70% of the U.S. passenger-car diesel market at the time⁶, their impact was particularly influential.

As it turns out, Volkswagen was hiding an even bigger secret.

⁴ Corcione, 2020.
⁵ Watson, 2016.
⁶ Atiyeh, 2019.

THE DIESEL DUPE

In September 2015, the United States Environmental Protection Agency (EPA), which is responsible for circulating congressional regulations to cut vehicle emissions, revealed an unsettling discovery: Volkswagen had knowingly been selling cars containing a “defeat device” used to lower emissions during government testing. Whenever this device detected the steering, throttle, and other factors usually used in an emissions test, it would kick into gear to help the car pass.

The EPA found that these engines emitted up to 40 times

more nitrogen oxide—a gas linked to asthma, bronchitis, and emphysema—than the legal limit¹. During regular driving, “the fuel pressure, injection timing, exhaust-gas recirculation, and, in models with AdBlue, the amount of urea fluid sprayed into the exhaust”² would all return to their post-test levels that far surpassed the federal restrictions intended to protect human health and environmental impact.

Volkswagen had faked the emissions levels in approximately 580,000 of its vehicles sold in the U.S.

¹ Hotten, 2015.
² Atiyeh, 2019.

between 2006 and 2015³ and roughly 10.5 million more cars worldwide⁴. Aside from the clear implications for its consumers, Volkswagen had other agencies to answer to.

US taxpayers accused Volkswagen of accepting tens of millions of dollars in clean energy subsidies from the federal government over the years⁵. A complaint by the U.S. Securities and Exchange Commission (SEC) stated that Volkswagen had “[defrauded] U.S. investors, raising billions of dollars through the corporate bond and fixed income markets while making a series of deceptive claims about the environmental impact of the company's ‘clean diesel’ fleet.”⁶ From April 2014 to May 2015 alone, “Volkswagen reaped hundreds of millions of dollars in benefit by issuing [asset-backed] securities”⁷ while senior executives knew what was happening behind-the-scenes.

Volkswagen had a decision to make: admit to foul play or sweep the scandal under the rug?

^{3, 6, 7} Wharton, 2019.
⁴ Atiyeh, 2019.
⁵ Preston, 2015.

Meet the Volkswagen
TDI Clean Diesel
Family.



A LESSON IN ACCOUNTABILITY



The automaker's first reaction was to conceal the truth until regulators threatened to withhold certification of Volkswagen's 2016 model diesels¹. After initial resistance, CEO Martin Winterkorn resigned by the end of September 2015 following public news of the scandal. His replacement, Matthias Mueller—former CEO of Porsche—stated that his “most urgent task [was] to win back trust for the Volkswagen Group.”²

Michael Horn, CEO and President of Volkswagen Group of America at the

time, said, “We’ve totally screwed up.”³ Volkswagen publicly admitted to fitting nearly 11 million cars worldwide with the software.⁴

Customers were understandably outraged as they grappled with having been duped while seeing a sudden drop in their car resale values. The U.K., Italy, France, South Korea, Canada, and Germany opened their own investigations as Volkswagen recalled 8.5 million cars in Europe and 500,000 in the US.⁵

As part of a settlement with the Environmental Protection

Agency, the Federal Trade Commission, and the Department of Justice, Volkswagen announced a \$10 billion buyback program for all current affected owners and lessees of 2.0-liter cars. Owners of specific models would receive the “fair replacement value” of their cars from the day before news of the scandal broke. Leases could also be terminated without penalty and Volkswagen offered free repairs. The company committed to investing \$2 billion over the next 10 years in green energy and electric cars.⁶

THE IMPACT

In the year that followed, Volkswagen's stock price plunged.¹ Sales in the U.S. were down 24.7% from the previous year² and, as of October 2020, Volkswagen had taken a \$35 billion hit in charges to their earnings.³

According to BrandFinance's annual ranking Volkswagen has recovered some of its pre-scandal reputation, but not all. Prior to September 2015 it was the world's 18th most valuable brand;

five years later it's 25th.⁴

Volkswagen has pushed their commitment to producing electric cars and improving their compliance culture as cause for redemption. In 2016, Matthias Müller predicted that electric vehicles would account for around a quarter of its annual sales by 2025. Müller said that the changes would “require [Volkswagen]—following the serious setback as a result of the diesel issue—to learn from mistakes made,

rectify shortcomings, and establish a corporate culture that is open, value-driven and rooted in integrity.”⁵

As the automaker continues making efforts to restore its reputation through Super Bowl commercials and other sponsorships, they've also taken important steps in instigating a 24-hour whistle-blower hotline to show their commitment to issue prevention. Despite these attempts, U.S. investment group Blackrock has stated that the Volkswagen board is not to be trusted as “it still [lacks] the independent oversight that many felt had contributed to the problems in the first place.”⁶

As it stands, Volkswagen has a lot to learn.

⁵ Associated Press, 2016.
⁶ Rock Dove, n.d.

VOLKSWAGEN INTRODUCED THEIR ELECTRIC CAR LAST YEAR.

¹ Atiyeh, 2019.
² Wikipedia, n.d.
³ Colvin, 2020.

⁴ Colvin, 2020



¹ Jacobs, 2019.
² Hotten, 2015.

^{3, 4, 5} Hotten, 2015.

⁶ Atiyeh, 2016.

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