3RD EDITION
VENICE SUSTAINABLE FASHION FORUM
OCTOBER 24TH – 25TH, 2024

Executive Summary

JUST FASHION TRANSITION 2024

STUDY CONDUCTED BY The European House Ambrosetti

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THE VENICE SUSTAINABLE FASHION FORUM 2024

The Venice Sustainable Fashion Forum is a remarkable initiative brought to life through the collaboration of three key partners: **Sistema Moda Italia**, **TEHA Group**, and **Confindustria Veneto Est**.

This Forum serves as the premier annual event focused on sustainability in the fashion industry. Now in its **3rd edition**, it has garnered support from 19 partners who share its values and objectives, recognizing the urgent need for meaningful discussions on sustainability that pave the way for a fair and effective transition.

The **strategic study** "Just Fashion Transition", which addresses the industry's progress, challenges, and opportunities in sustainable transformation, will be unveiled during the event to foster a collaborative dialogue and the development of shared solutions.

TEHA GROUP

TEHA Group, operating since 1965, is a firm of **300 professionals, 56% of which are women**. It has grown significantly over the years, also thanks to the contribution of several Partners, who have been developing numerous activities in Italy, Europe and the rest of the world.

750+	**3.000**	**1°**	**18**
EVENTS	EXPERTS	THINK TANK	COUNTRIES

For **almost 60 years**, TEHA has been working at the side of Italian companies, serving more than **1,500 clients each year** with Management Consulting Services and tailored projects spanning 14 thematic areas. The Group works for companies from **various sectors and of diverse sizes**: in particular, it annually develops 120 projects for entrepreneurial families. It also carries out more than **350 Strategic Studies and Scenarios**, addressed to Italian and European institutions and companies.

About **3,000 Italian and international experts** are involved every year in the **750 events** created exclusively for the **18,000 managers** that are enrolled in a professional growth path. Thanks to TEHA's know-how and the proprietary technology at its disposal, the Group carries out workshops, seminars, and complex high-level digital and phygital events, in addition to Training Programmes for professionals and business leaders.

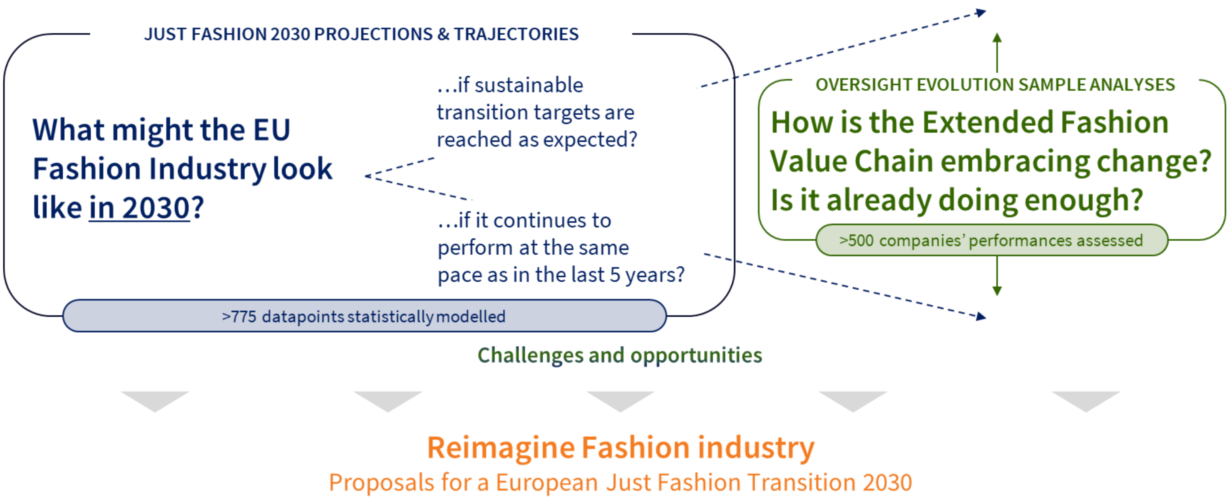
Nowadays, TEHA Group is acknowledged as the **1st Italian Private Think Tank, 4th in the European Union**, one of the most respected and independent institutions in over 100 countries worldwide.

JUST FASHION TRANSITION 2024: EXECUTIVE SUMMARY

GOALS OF THE STUDY AND SOURCES

Just Fashion Transition 2024 is TEHA's **annual strategic observatory on the sustainable transition in key fashion sectors**: textile, clothing, knitwear, footwear, leather goods, tannery.

This year, the study adopts a **new, forward-looking, and proactive structure** aimed at exploring possible trajectories for the Just Fashion Transition. The 2024 edition elaborates specifically on **two key questions** that have guided the research process.



The study highlights **challenges** and **opportunities** concealed within the sustainable transition of the fashion industry and gives **5 recommendations** addressed to institutions and key players in the fashion value chain to promote a transition that is not only sustainable, but also just, fair, and capable of balancing interests and expectations of different stakeholders without leaving anyone behind.

Contents of the study benefit from several proprietary analyses and sources

PROPRIETARY ASSESSMENTS

- **373** Italian companies assessed by a sustainability assessment questionnaire
- **100** Largest EU companies assessed on their ESG oversight and performance
- **30** Global retailers assessed on their sustainability oversight and performance

PROPRIETARY ELABORATIONS

- **>2,9K** Economic performances of companies among the Italian supply chain and the EU main fashion brands analyzed
- **>26K** Global respondents - consumer statistics sample
- **>775** Datapoints on EU fashion industry performance analyzed to elaborate 2030 scenarios

PUBLIC SOURCES

- **>45** Scientific articles, papers, and informative reports consulted
- **32** European policy measures or frameworks analyzed
- **>25** Databases extracted and analyzed at European level

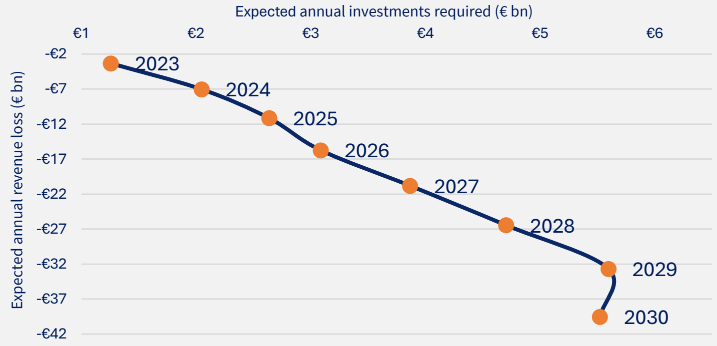
This symbol highlights throughout the study the unreleased contents which have been elaborated thanks to these analyses and sources.

KEY FINDINGS OF THE STRATEGIC STUDY

1. The EU fashion industry may meet its climate targets 8 years behind schedule

Even though over the past 6 years the EU fashion industry has already managed to decouple economic growth from CO_2 emissions, it appears that, at the current rates, **the industry is doomed to achieve Fit for 55 targets by 2038**. To catch up with the EU legally- binding decarbonization path, **additional investments for €24.7 billion by 2030 are needed, or 8-times-higher revenue losses should be expected** across the industry, due to the decrease in production volumes needed to avoid the emissions which exceed the limit.

INVESTMENTS REQUIRED VS. EXPECTED REVENUE LOSS IN A FIT FOR 55 SCENARIO



Key supporting evidence

- **Over the past 6 years, the EU fashion industry has reduced its output's carbon intensity (grCO_2 per € of revenues) by 9.7% per year**. Projections indicate a potential for an overall 70.7% reduction by 2030, mainly driven by effective energy efficiency measures[1].
- Though its absolute carbon footprint has decreased by 33% since 1990, a scenario comparison shows how, **to meet Fit for 55 targets on time, European Fashion value chains need to cut an additional 76.1 million tons of CO_2 by 2030**[2] – this corresponds to almost 61% of the sector's emissions in 2022.
- **An estimated investment gap of €24.7 to €29.1 billion is needed by 2030 for scalable solutions**[3] to advance decarbonization, while current investments in the fashion industry seem to have declined by 7.93% since 2018, limiting innovation and competitiveness, with a notable drop in patent applications by 3.39% during the same period[4].
- Given the institutional constraint introduced by the Fit for 55, **companies must choose between investing in emissions reduction or sacrificing sales by adhering to a carbon budget**, with potential revenue losses by 2030 estimated at €156.7 billion – over 7.8 times the required investment[5]. As actual consumption rate seems incompatible with the 2030 decarbonization target, European consumers may be called to cut around 1 out of 3 items they buy each year[6].
- According to an analysis on over 2,686 Italian supply chain companies' balance sheets, **investments in decarbonization seem hardly affordable for 92% of the Italian supply chain companies**. Small firms may be threatened with losing up to 5.8 p.p. of their margins due to additional investments required for decarbonization, while benefiting from an average overall profitability of only 7-11%.[7].

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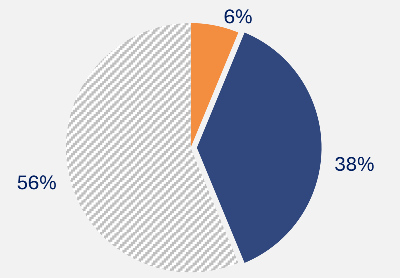
[1] TEHA elaboration on Eurostat (retrieved on 06/06/24). Air emissions arising from land use, land use changes and forestry as well as any indirect emissions are excluded; and (2) R. R. Collado et al., Key drivers of the textile and clothing industry decarbonisation within the EU-27 (2023).
[2] TEHA elaboration on European Environment Agency: EEA greenhouse gases - data viewer 2018-22 (retrieved on 06/06/24) and (2) TEHA elaboration of Science Based Target: Apparel and Footwear sector – SBT guidance (retrieved on 06/06/24).
[3] TEHA elaboration on European Environment Agency: EEA greenhouse gases - data viewer 2018-22 (retrieved on 06/06/24); (2) McKinsey, Fashion on Climate (2020) and various sources (2024).
[4] TEHA elaboration on European Investment Bank: Corporate investment was growing in Europe – then COVID-19 hit (2021) and (2) European Patent Office: European Patent register (retrieved on 14/06/24) - Patent application for apparel, fashion, garment, leather and textile.
[5] TEHA elaboration on various sources (2024) and on Eurostat: Annual detailed enterprise statistics for industry from 2018 to 2022 (retrieved on 06/06/24)
[6] TEHA elaboration on Statista, IMF, World Bank, UN and Eurostat (2024)
[7] TEHA elaboration on Bureau Vad Dijk AIDA and Orbis (2024)

2. Clear decision-making and competitiveness can be held back by intensive and incomplete regulatory frameworks

As the EU global influence has progressively diminished 10 years after the Paris Agreement, it continues to promote sustainability primarily through internal regulations. However, the lack of **implementation guidelines and regulatory frameworks leaves European businesses uncertain** about what to expect in the next 5 years, causing a loss of competitiveness compared to other regions. Moreover, despite the EU's increasing focus on the **end-of-life management** of textile and apparel products, both European and Italian **infrastructure systems remain behind schedule**.

STATUS OF EU REGULATIONS AFFECTING FASHION SECTOR



Key supporting evidence

- Since 1990, **the G7's share of global GDP has dropped from 50% to around 30%, elevating the G20 as key players in economic discussions**. In this context, by committing almost $2.4 trillion in public and private funds, the US set at the forefront of green manufacturing, while China leveraged strong state control and $400 billion between 2021 and 2025[8].
- **The European Union chose to push the transition through regulation, but full implementation of announced policies for the fashion industry is not expected for another 5 years**. Yet, as sustainability compliance increasingly targets larger companies, SMEs appear not to have been adequately supported. They may bear the compliance burden without sufficient resources, potentially widening inequalities – especially among the most vulnerable players on the market, be they companies or physical persons – and hindering their ability to compete in a regulated market[9].
- While the European Commission pushes towards waste recovery and disclosure on discarded unsold products through the upcoming Ecodesign Regulations, **in the EU destruction is still a common disposal method for returned and unsold textiles**, with 264,000 to 594,000 tonnes estimated to be destroyed annually (4-9% of the market). Moreover, **while up to 79% of unsold stock is recovered, only 57% of online returns are**, leading to processing costs of 55%-75% of retail price[10].
- **The 2023 Waste Framework Directive revision introduced extended producer responsibility (EPR) schemes**, requiring fashion brands to pay fees based on product Ecodesign to encourage durability and recyclability, supported by Digital Product Passports; while Italy has already set up separate textile collection systems, **only 3 out of 4 towns have facilities, resulting in a collection of just 2.7 kg per capita compared to 23 kg placed on the market[11]**.

[8] ISPI, UE: il treno green non è frugale (2024); Atlantic Council, The IRA and CHIPS Act are supercharging US manufacturing construction (2024); European Union, The European Green Deal (2020); Ministry of Economy, Trade and Industry, Green Growth Strategy Through Achieving Carbon Neutrality in 2050 (2020); PRC, 14th Five-Year Plan (2020)
[9] TEHA elaboration on the European Union (2024); The proposed legislation does not directly affect TCLF (textiles, apparel, leather, and footwear) products in its current form, but could be expanded in future revisions, given the new repair requirements arising from the Ecodesign Regulation; The extent of the impact has been established in terms of actions to be implemented and economic resources to be spent; and (2) Euratex, Facts & Key Figures (2024); and (3) European Parliament, The cumulative effect of due diligence EU legislation on SMEs (2023)
[10] TEHA elaboration on EEA, The destruction of returned and unsold textiles in Europe's circular economy (2024); and (2) Ecodesign for Sustainable Products Regulation (EU) 2024/1781; and (3) Unspecified destinations refer to outside outlets, jobbers, donations.
[11] TEHA elaboration on Leg. Decree 2020/116; and (2) ISPRA, Green Book (2024); and (3) Erion (2024); and (4) Fondazione sviluppo sostenibile, Il riciclo in Italia (2023)

3. The European financial sector does not have all the levers to drive a Just Fashion Transition, yet

Without adequate financial support and regulatory framework to facilitate access to sustainable funds on capital markets, **the transition risks falling underfunded**, exacerbating inequalities especially among **SMEs, which nowadays represents almost 98% of the whole industry**.

As of today, **only 35% investments dedicated to European SMEs transition have been supported by external financing**, and only 16% of these actually qualifies as "sustainable".

SUSTAINABLE EXTERNAL FINANCING SOURCES AMONG EUROPEAN SMEs

~16%

The average external financing qualifiable as sustainable finance, with a broad definition of the term sustainability

Key supporting evidence

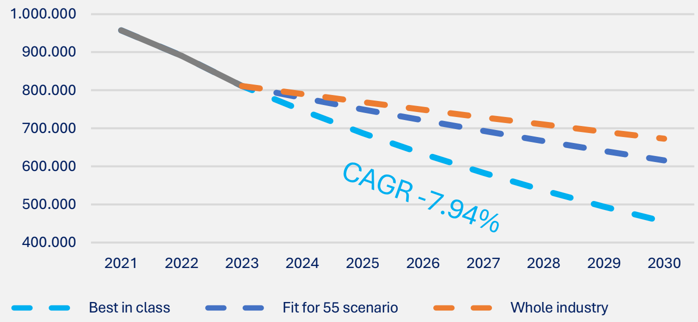
- Thanks to the funds put in place by the EU to accelerate the European Green Deal implementation, **European fashion value chain companies can finance their energy transition through up to €485 bn** available for all industries and companies. €2 bn, equal to 1% of such resources, are specifically dedicated to SMEs, highlighting the need for collaboration between public and private sectors to mobilize these investments[12].
- **Nearly 60% of European SMEs are already investing in sustainability, but only 35% of their funding comes from external sources and, within this share, just 16% is actually labelled as sustainable finance**; the fashion sector's adoption of Green Bonds is around 1%, indicating significant barriers to accessing sustainable finance that hinder progress[13].
- **Large brands are shyly starting to join or create alliances to support the green transition in their supply chains**. As most pollution originates from factories outside major brands' control, initiatives like Future Supplier Initiative aim to provide suppliers with lower-interest loans for sustainable practices, part of a broader effort to unlock new resources towards achieving net-zero emissions[14].
- **Such initiatives have already successfully unlocked $52 million in funding. However, this amount is still a small share of the total allocated sum of $2 billion by 2030**, showing a significative funding gaps and underscoring the urgency for enhanced and more effective collaboration among brands to drive meaningful progress in sustainability efforts[15].
- Collaboration across the fashion industry still seems exposed to significant barriers, with only **4% of brands providing details on support for sustainability initiatives** outside the corporate scope and **only 24% reporting on investments in energy-efficient solutions at the supplier level[16]**.

[12] TEHA elaboration on European Environment Agency, Investments in the sustainability transition: leveraging green industrial policy against emerging constraints (2023); and (2) European Commission data (2024)
[13] TEHA elaboration on Eurochambers, A European Survey: Access to sustainable finance for SMEs (2023); and (2) Data provided by Unicredit (2024)
[14] TEHA elaboration on What fuels transition, Fashion revolution (2024); and (2) Public alliances data (2024)
[15] Ivi.
[16] Ivi.

4. 1 out of 3 among EU top 100 fashion companies is up to speed with decarbonization, the rest is far behind

Decarbonization in EU seems feasible, as **34 among the largest companies** are reducing their emissions **twice as fast** as required by Fit for 55. Still, this might show a significant lag for the rest of the industry. In fact, while on climate some progress is being made, **only 7 manage to be transparent on living wage** and 28 of these 100 large companies do not yet publish a Sustainability Report. Moreover, **integrating ESG performance in executives' variable remuneration is a practice in only 25% of the companies**, in contrast to other industries where such share is above 90%.

BEST IN CLASS, EU FASHION INDUSTRY EMISSIONS AND FIT FOR 55 DECARBONIZATION SCENARIOS (tCO_2)



Key supporting evidence[17]

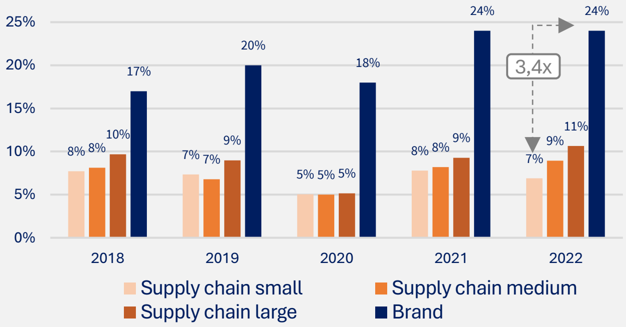
- **TEHA's third-year analysis of over 130 fashion companies, including 31 global retailers and the largest 100 European fashion companies by turnover, evaluated their sustainability management and performance** based on oversight and key performance indicators, all using publicly available data from the past three years. This year, the analysis gains even more relevance if one considers, large companies in Europe – with over 250 employees and/or over €45 mn revenues and/or over €25 mn assets – must progressively comply with the new Corporate Sustainability Reporting Directive (CSRD), which mandates stricter and more ambitious requirements.
- **Though 28 companies still lack sustainability reports, in 2023 an improvement in ESG oversight is registered among the panel (+12% on average):** 1 additional company reported targets, while 33 improved ESG oversight, 35 remained steady, and only 4 declined. **Luxury companies achieved the highest average scores**, followed closely by mass-market and fast fashion brands, with 66% of improving companies already having strong reporting structures in 2022.
- **On environmental issues, clear trends can be observed: since 2021, climate change has been by far the most widely addressed topic**, and to date, it is the **only area where the prevalent oversight approach is setting long-term quantitative goals**. Biodiversity, despite an increased focus over the past three years, remains largely the most difficult issue to report on and manage, due to the lack of comparable metrics and approaches, and continues to be the most neglected topic.
- Among the largest 100 European fashion companies, it was possible to retrieve consistent emissions data for a sample of 41. In **the last 3 years those companies were able to outpace the industry in its decarbonization path** by cutting GHG emissions 3 times as fast, and twice as fast as required to achieve the Fit for 55 targets. It should be kept in mind that larger firms benefit from significantly higher profitability ratios, providing them with the financial capacity to support their sustainability transitions.
- **Only 26% of the 100 largest European fashion companies have linked executive compensation to ESG metrics**, despite this being vital for internal accountability and therefore sustainable transition success. Across all industries, the EU leads with a 93% integration rate compared to 76% in the US and 77% in Asia, overall progress in the fashion sector has been slow, with only an 8% improvement among the largest EU fashion firms over the past 3 years, reaching the actual 26%.

[17] TEHA elaboration on all latest balance sheets and sustainability related publicly available information from European fashion and luxury value chain companies that will be subject to CSRD obligations.

5. Lack of skills and low margins make Italian supply chains struggle with swift changes

ESG oversight **appears to have declined by 3% among Italian supply chains,** particularly among SMEs with revenues <€30 mn. Three main drivers of this slowdown are identified: the **lack of internal competencies** seems to be the main driver of unattended oversight, while **low and progressively tapering profitability** (ranging between 7 and 11%), as well as **high debt ratios** make investments in decarbonization hardly affordable for ~92% of the companies, especially in tannery and apparel manufacturing.

EBITDA-TURNOVER RATIO AMONG THE VALUE CHAIN (2,686 ITALIAN SUPPLY CHAIN COMPANIES VS. 281 EU BRANDS)



Key supporting evidence[18]

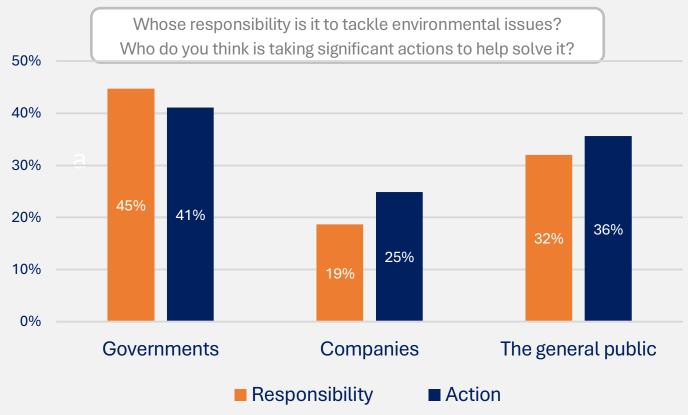
- According to the ESG assessment of 373 Italian fashion supply chain companies conducted for the third consecutive year, **larger supply chain companies exhibit strong sustainability oversight, but smaller firms (under €30 million in revenue) face challenges, resulting in a 3% overall decline in sustainability practices in 2024**. The oversight gap narrows for companies exceeding €80 million in revenue, highlighting the disparity in sustainability adoption across different company sizes.
- **Textile and clothing manufacturing companies demonstrate the highest sustainability oversight in the Italian supply chain**, improving with company size, while leather, knitwear, and footwear lag, especially among smaller firms. Larger companies, particularly those over €80 million in revenue, show more robust sustainability practices across all segments.
- **In 2024, insufficient in-house competencies hinder sustainability oversight across the supply chain**, with companies lacking internal skills tending to have weaker oversight and showing the poorest performance. In contrast, **having a dedicated ESG figure or undergoing audits, training, and awareness programs from clients boosts oversight**, highlighting the crucial role of external financial pressures in motivating sustainability efforts.
- Yet, **in 2024, 96% of the largest companies reported heightened scrutiny from financial institutions, with smaller firms (revenues of €5 million to €50 million) also seeing increased attention (44% to 53%).** Notably, 70% of companies facing this scrutiny have adopted sustainability strategies, indicating that financial pressure is driving sustainability initiatives.
- Besides narrow margins along the Italian supply chain, debt put a further burden on companies, and especially on SMEs. **About 1/3 of investments in the Italian fashion supply chain are financed by external sources, with smaller companies relying on third-party financing for over 54% compared to 31% for larger firms**. SMEs take roughly 3 times longer to repay debts compared to large companies, while tannery faces even longer repayment periods of 34 months for small firms and 20 months for medium-sized ones[19].

[18] TEHA elaboration on proprietary 2024 Italian Supply Chain ESG assessment results, based on 373 respondents.
[19] TEHA elaboration on Bureau Vad Dijk AIDA (2024)

6. As business and citizens are already doing enough, it is up to governments to play their part, consumers say

If the industry does not invest enough, **Europeans may need to forgo 21 clothing items per capita by 2030**. However, while second-hand clothing may be seen as a sustainable alternative to fast fashion, its benefits are reduced by the rebound effect, where **1.23 used items are bought for every new one avoided**. According to global consumers, governments are the only players whose actions do not seem sufficient in relation to their environmental responsibilities. EU consumers, especially **younger generations**, recognize sustainability requires both costs and effort. This may explain why, though awareness is rising, they seem unwilling to act, yet.

EU CONSUMER OPINION ON RESPONSIBILITY VS. ACTION



Key supporting evidence[20]

- **Cost is the main barrier to sustainable fashion for all generations**, with Gen Z particularly affected due to limited financial resources. **However, a significant obstacle for Boomers is the overwhelming complexity of sustainability information**, making it hard for them to navigate. The **information barrier** is also strongly felt among more **educated consumers**, who say there is insufficient information available on the sustainability of products, likely because they seek a higher level of detail.
- **Governments are seen as the most responsible for tackling climate change, particularly in APAC[21], where there is the largest gap between responsibility and action.** In the EU, consumers believe companies and themselves are already contributing to climate action, with a general sense that they are doing more than what is required. Consumers are considered responsible as well, especially in APAC and the USA, but these regions report lower levels of perceived action from individuals.
- Consumers with **higher education** and **greater financial** means are more **likely to explore and remain loyal to brands with a positive environmental or social impact**. Conversely, those with lower income or education levels tend to lack awareness of such impacts or do not align themselves with statements regarding loyalty to sustainable brands, likely due to the higher costs associated with these products.
- **Most consumers take a neutral stance on brands' sustainability efforts**, suggesting these concerns aren't seen as particularly urgent. European consumers are slightly more critical than those in APAC, especially regarding pollution and carbon emissions, with more awareness around working conditions, showing greater sensitivity to labour issues over environmental ones. **Brands**, similarly, **are not viewed as highly responsible for environmental or social issues**, indicating they aren't held accountable for their role in addressing these challenges.
- **A rebound effect may be acknowledged when looking at consumers' behavior, especially regarding second-hand.** This refers to the phenomenon where the benefits of a sustainable choice are offset by increased consumption elsewhere. Specifically, **data shows how for every new item avoided through second-hand purchasing, consumers end up buying 1.23 used items[22]**.

[20] TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents
[21] Asia–Pacific region
[22] TEHA elaboration on Ciechelska A. et all., Circular Economy Rebound Effect in the context of second-hand clothing conspumption (2023)

REIMAGINE FASHION INDUSTRY

In an unsustainable market, no company can thrive

Neither Markets nor Institutions have achieved the required pace of the Just Transition, yet. OECD's annual growth is expected to fall by almost 30% by 2060, reaching 1.3% mainly due to the decline of working-age population, and mostly affecting the emerging G20 countries[23]. Simultaneously, as 2023 marked the hottest year ever, scientists warn that without immediate action, by the end of the century, most climate risks could reach critical or catastrophic levels – especially in Southern Europe – resulting in economic losses from coastal flooding alone potentially exceeding €1 trillion per year[24]. On the other hand, this transition could yield substantial economic benefits, with global GDP projected to be 7% higher by 2050 under net-zero policies compared to current measures[25].

In this scenario, there is no realistic prospect that, without deeper structural changes, either of them can "bend the curve" alone, therefore protecting the social and environmental foundations which society and business depend on.

Thus, three evidences must be noted:

- **markets and price systems do not reward sustainability**. Rather, it is presented to companies as an unprofitable investment whose rationale lies mostly in ethical or compliance reasons;
- **regulation alone will not be sufficient to accelerate the transition**. Rather, it risks pushing companies towards declarative sustainability, more focused on disclosure than on performance improvements.
- **the costs of transition cannot be evaluated alone.** Rather, the costs of action should be measured and weighed against the longer-term costs of inaction, which in the case of climate change may be difficult to manage.

Proposals for a European Just Fashion Transition 2030

To Institutions

I. Promptly close the regulatory gap

Exert pressure at the European level to accelerate the process of finalizing and completing the regulatory frameworks, to create the conditions for companies to make medium- to long-term decisions.

II. Simplify financing for Small and Medium Enterprises

Simplify the bureaucratic burdens for SMEs, enticing them to make sustainable investments through easier access to credit and favorable financial conditions.

To Industry Players

III. Boost competencies and R&D

Build and spread national competence and capacity centers, involving universities and the research community to test scalable solutions. Develop capacity building initiatives to spread among SMEs all the skills needed for the transition and build a transition proof workforce.

IV. Promote Fashion National Industrial Plans

Develop a sector strategic plan to identify ways to integrate the cost of sustainability into prices' structure - also to eradicate caporalisation, as well as to share methods, timelines, and needs for public and private funding.

V. Concentrate to increase competitiveness

Foster a process of concentration especially among SMEs to increase productivity and investment capacity to cope with a just transition. This can happen through tax relief processes, credit facilitation, and public funding.

For further information, please contact the Responsible for contents
Carlo Cici (TEHA Partner & Head of Sustainability) at carlo.cici@ambrosetti.eu.

[23] OECD, Long term scenarios: incorporating the energy transition (2023)
[24] European Environmental Agency: European climate risk assessment 2024 (2024)
[25] International Monetary Fund: Benefits of Accelerating the Climate Transition Outweigh the Costs (2023)

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