

2nd EDITION

VENICE SUSTAINABLE FASHION FORUM

OCTOBER 26 and 27, 2023

VENICE, FONDAZIONE GIORGIO CINI

PRESENTATION BY

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Partner and Head of Sustainability | The European House - Ambrosetti



OCTOBER 26th 2023



WITH THE CONTRIBUTION OF



SIDE EVENT



MEDIA PARTNER



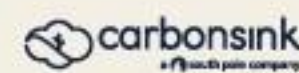
DIAMOND PARTNERS



PLATINUM PARTNERS






PARTNERS





Goals of the study

-  Providing a detailed and data-based **picture** of sustainability in fashion industry, by highlighting opportunities and challenges in the performance driven 3rd era of business sustainability integration.
-  Collecting and providing unreleased data and information on **downstream** and **upstream** supply chains.
-  Developing **recommendations** for institutions, companies and key players in the sector.



The sources and the analyses the study counts on

 **>2,800** companies in the supply chain and 243 companies analyzed for added-value

374 supply chain companies assessed by a sustainability questionnaire

100 top European companies assessed on their sustainability oversight and performances

32 companies rated by S&P CSA and Sustainalytics cross-referenced



30 retailers analyzed



21 industry leaders interviewed



>150 articles, reports and database consulted

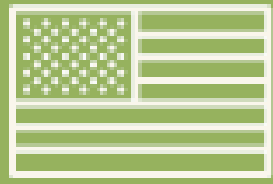
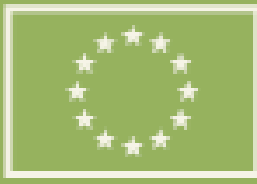


32 policy measures/ frameworks analyzed

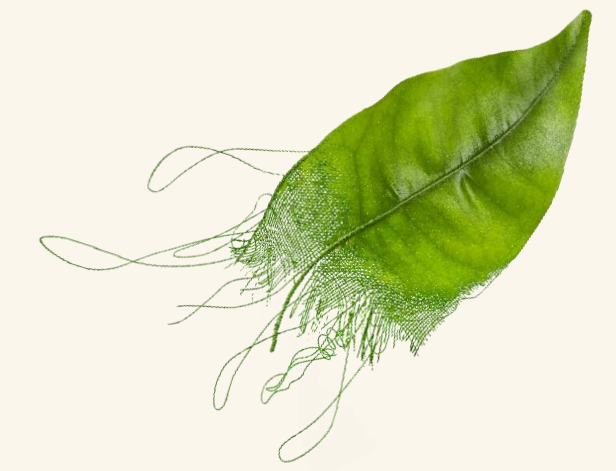
Scenario tangles



The tale of carrots and sticks

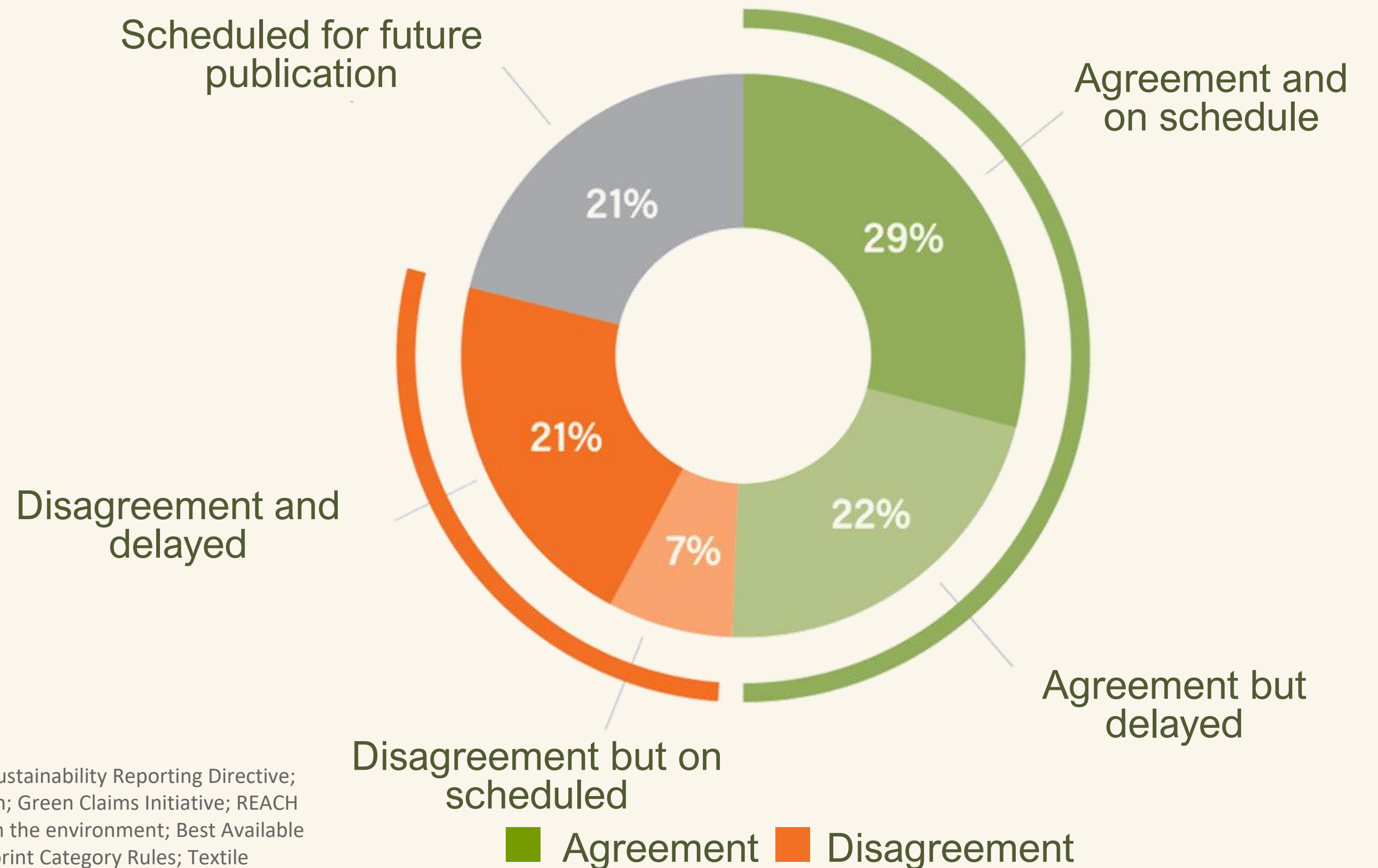
	 Inflation Reduction Act (IRA) ¹ ALL CARROTS, NO STICKS	 Green Deal Industrial Plan (GDIP) ² STICK BEFORE CARROT
Goal	Ramp up value chains for green energy and batteries, with CAPEX and OPEX support, with a dedicated budget of \$370 billion out of a \$737 billion total	Meet at least 40% of EU needs for net-zero products with EU-manufactured tech by 2030 and increase resilience of supply chains of critical goods
Leverage	Bureaucratic simplicity through fast-tracks and easy-to apply eligibility criteria	Structured approach through a shared framework guiding national regulations
Tools	Tax incentives and bonus credits for electric vehicles, clean energy and efficiency	Fast permitting procedures , training and education to ensure an EU net-zero-skilled workforce
Downsides	Risk of market distortions due to uncapped credits, with a final bill for taxpayers that could exceed \$1tn³	Increased bureaucratic complexity and lack of additional budget allocated to enhance cost-effectiveness of deploying clean-tech solutions

(1) US Department of Labour (2022); (2) European Commission (2023); (3) Credit Suisse, Goldman Sachs and the Brookings Institution (2023)



Almost 30% of the EU Strategy for sustainable and circular textiles legislations elicit Member States' disagreement

Status of the European ESG legislation impacting the textile and leather sector



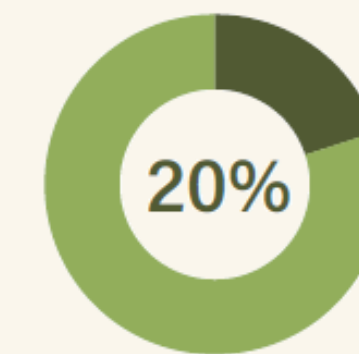
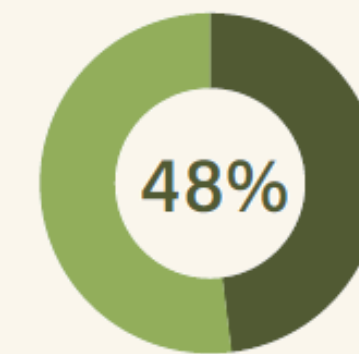
The European House - Ambrosetti Elaboration from the analysis of 14 key actions: Corporate Sustainability Reporting Directive; Corporate Sustainability Due Diligence Directive; Ecodesign for Sustainable Products Regulation; Green Claims Initiative; REACH Regulation; EU Forced Labour; Initiative to address the unintentional release of microplastics in the environment; Best Available Techniques; Export of textile waste; Waste Framework Directive; Product Environmental Footprint Category Rules; Textile Labelling Regulation, EU Ecolabel, Taxonomy for sustainable finance



There's no such thing as "the most sustainable fibre". Production impacts depend on the hotspot involved. In EU, textiles are the **5th most impactful consumer domain, but externalities mostly fall outside the borders**

EU-27 household textile consumption annual environmental impacts per capita, inside or outside EU-27

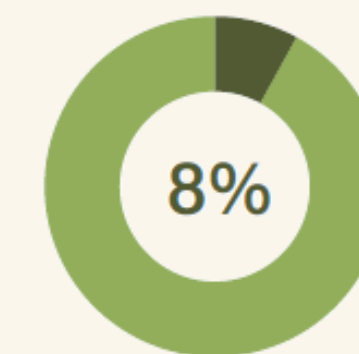
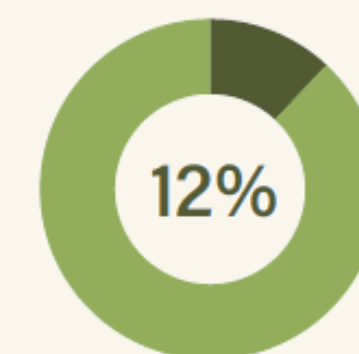
GHG Emissions
270 kg CO₂



Raw materials
391 kg



Water use
9.000 Lt



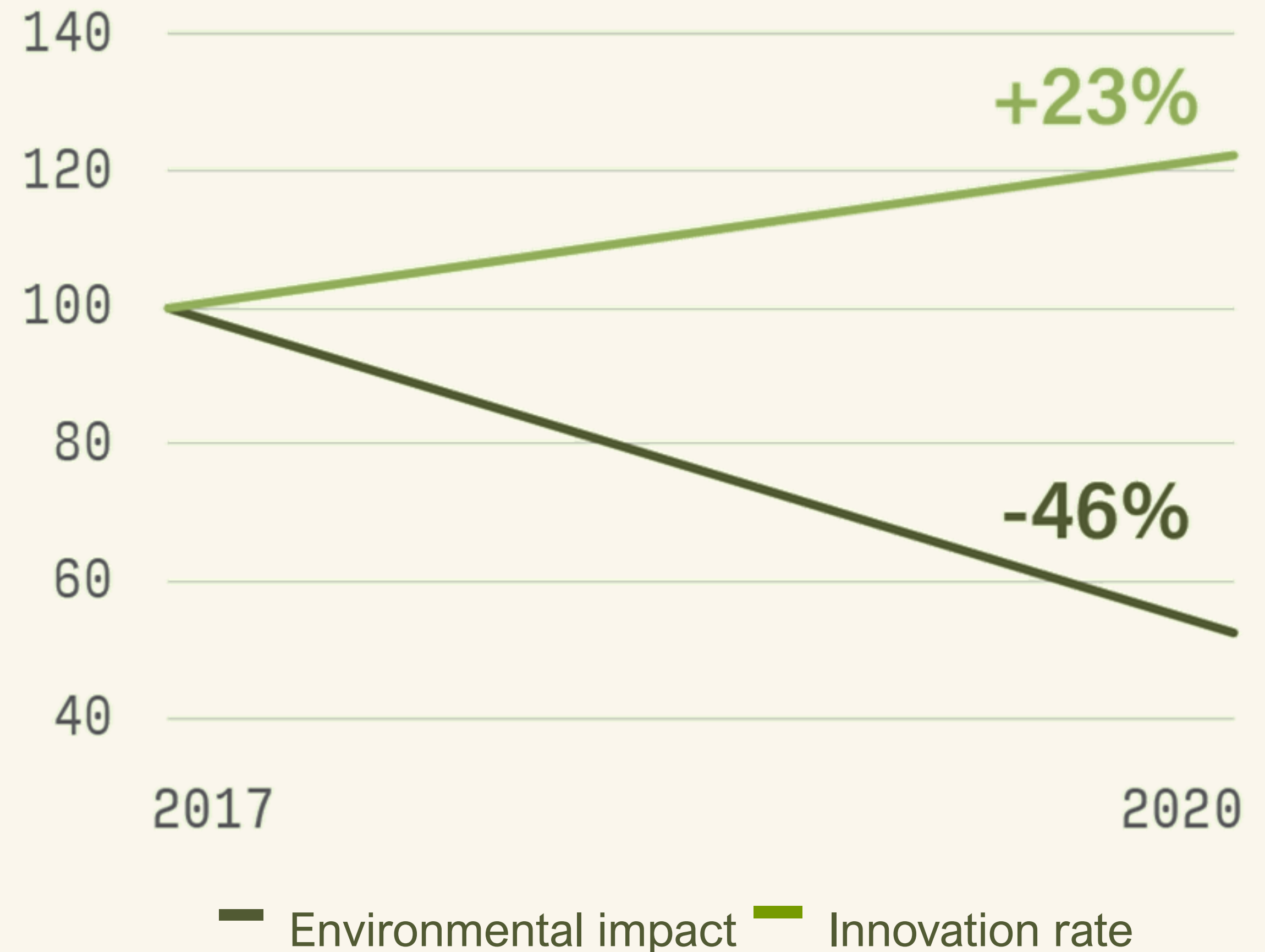
Land use
400 m²

■ Inside EU ■ Outside EU 27



**Textiles’
environmental
footprint per unit
produced seems to
have declined by
46.3% in 4 years,
while technological
development
advanced by 23.3%**

Environmental impacts per product unit and rate of innovation in the textile industry (% , 2017 vs. 2020)

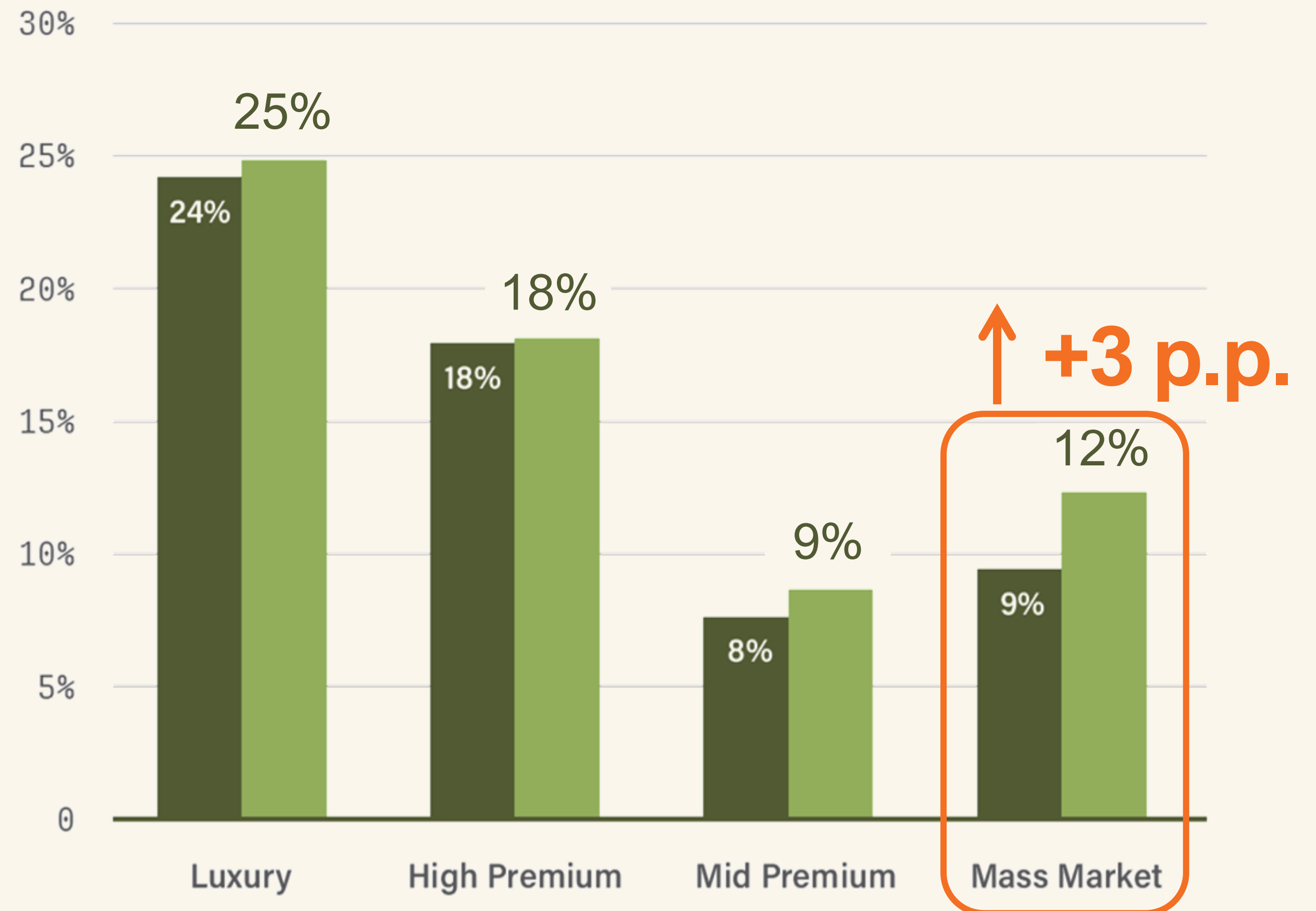


The European House - Ambrosetti elaboration on European Environmental Agency, Textiles and the environment: the role of design in Europe’s circular economy (2023); Eurostat Exiobase database (2020); European Parliament, Textiles and Environment (2022).



Crafting sustainable garments seems to be over 2 times pricier than conventional ones but promises 4 times higher margin^{1,2}. Rising costs and shrinking wallets make EBITDA a key factor for companies' sustainable shift³

Operating margins of EU 248 biggest fashion companies by market segment (2019-2021)

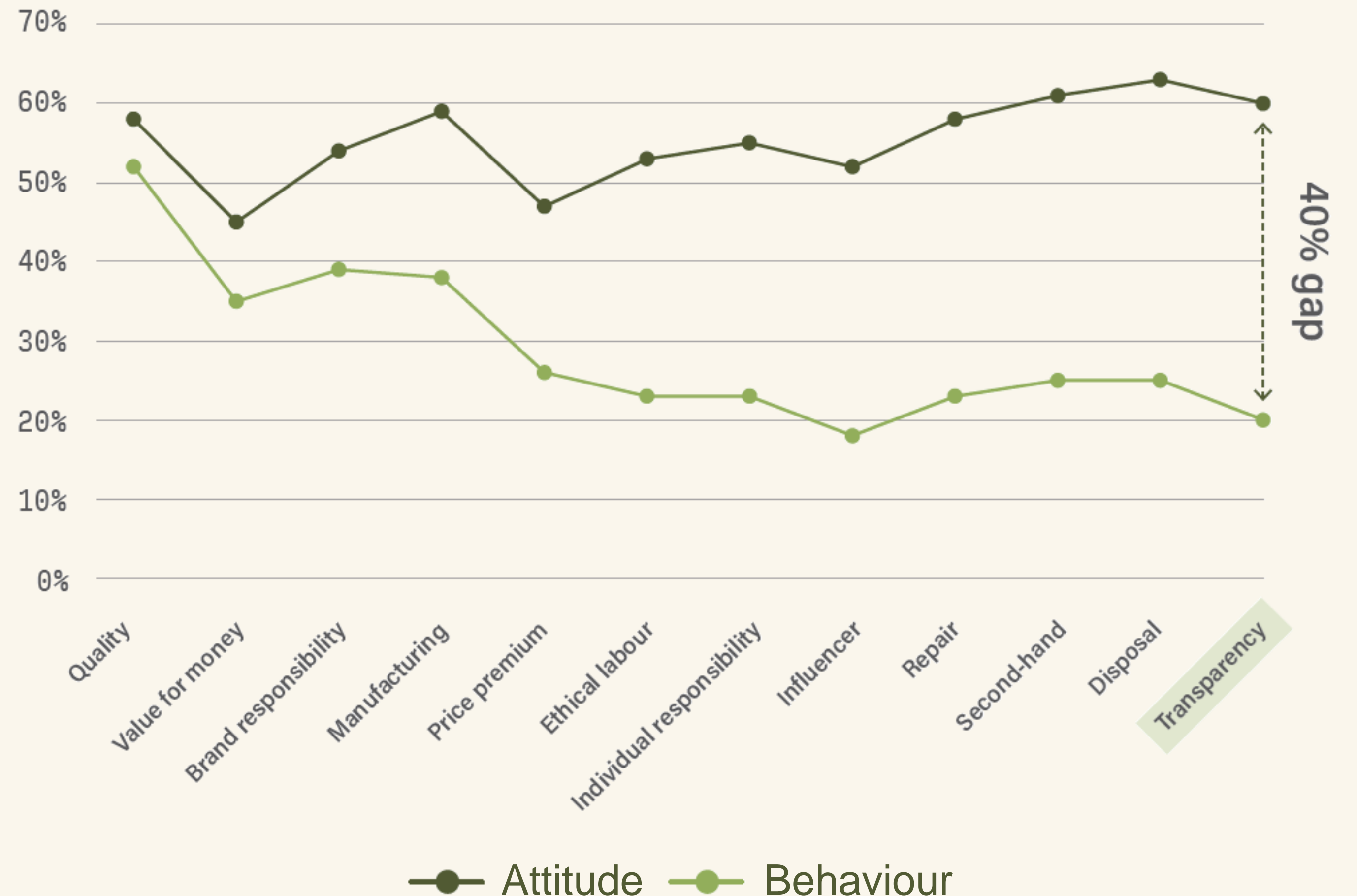


(1) The European House - Ambrosetti elaboration on Sustainably Chic, True Cost Series | Why Does A Sustainable T-Shirt Cost \$36? (2023); (2) The European House - Ambrosetti elaboration on R. Hasan, et al., (2020); (3) The European House – Ambrosetti elaboration on all latest balance sheets publicly available information from largest EU companies



People don't put their choices where their mouth is: the **attitude-behaviour gap** reaches up to 40% when it comes to seek information on sustainability during the purchase

The attitude-behavior gap across 12 dimensions of sustainable purchasing decisions¹

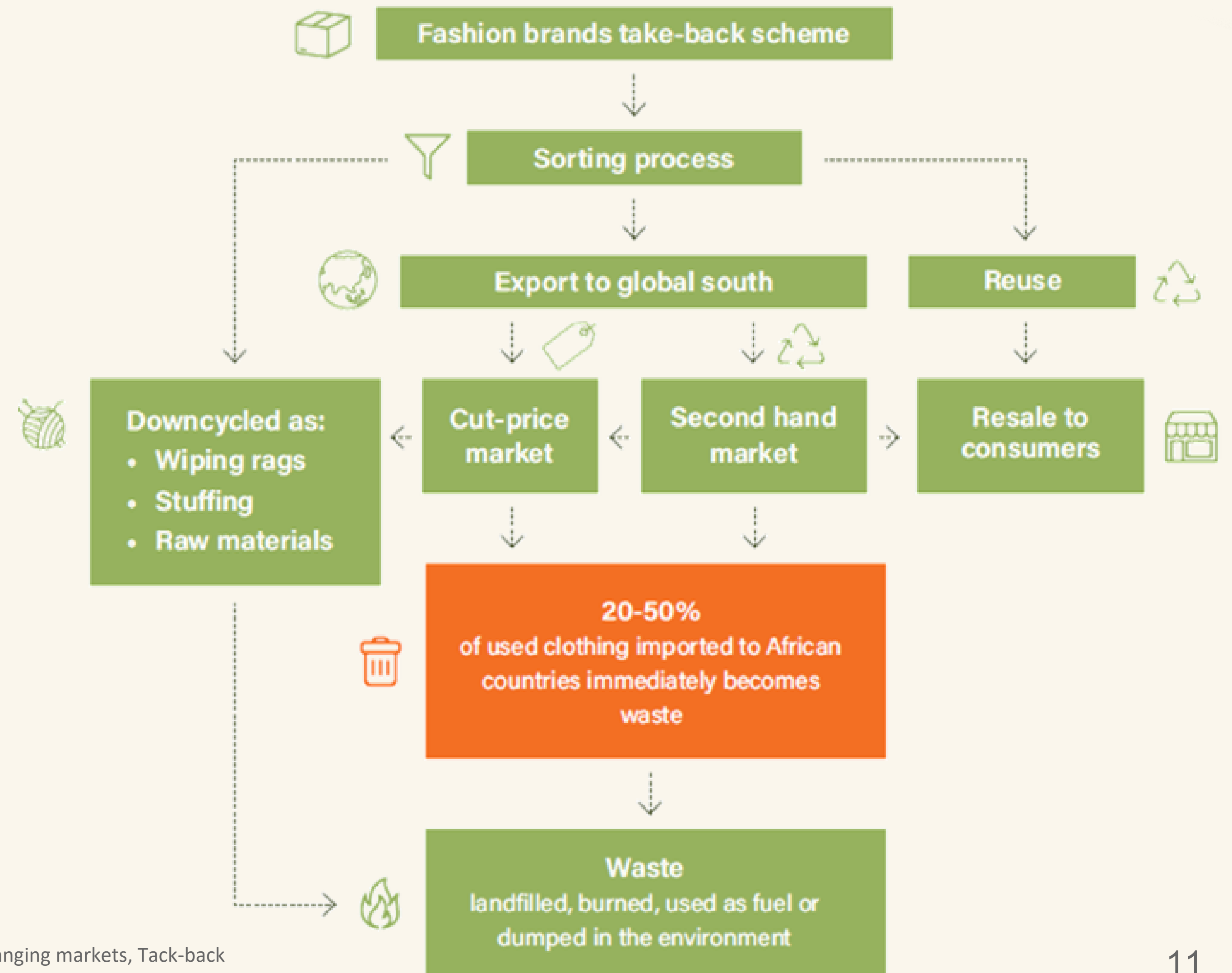


(1) Zalando, It Takes Two – How the Industry and Consumers Can Close the Sustainability Attitude-Behavior Gap in Fashion (2021)

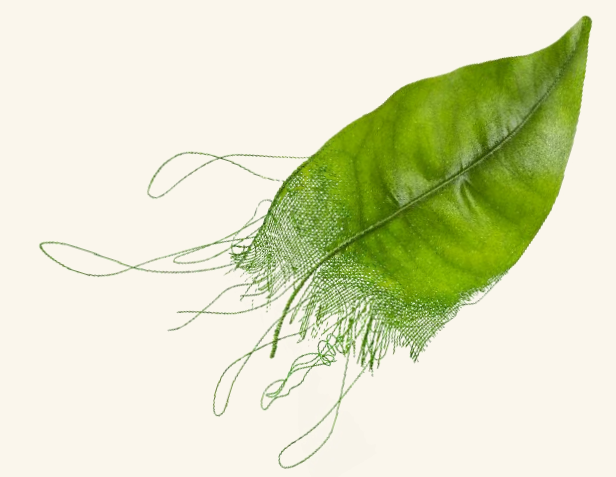


60% of consumers values sustainability but returns 1 out of 3 items bought online, often doomed to be landfilled in African countries¹

What happens to clothing dropped at brands' take-back schemes²

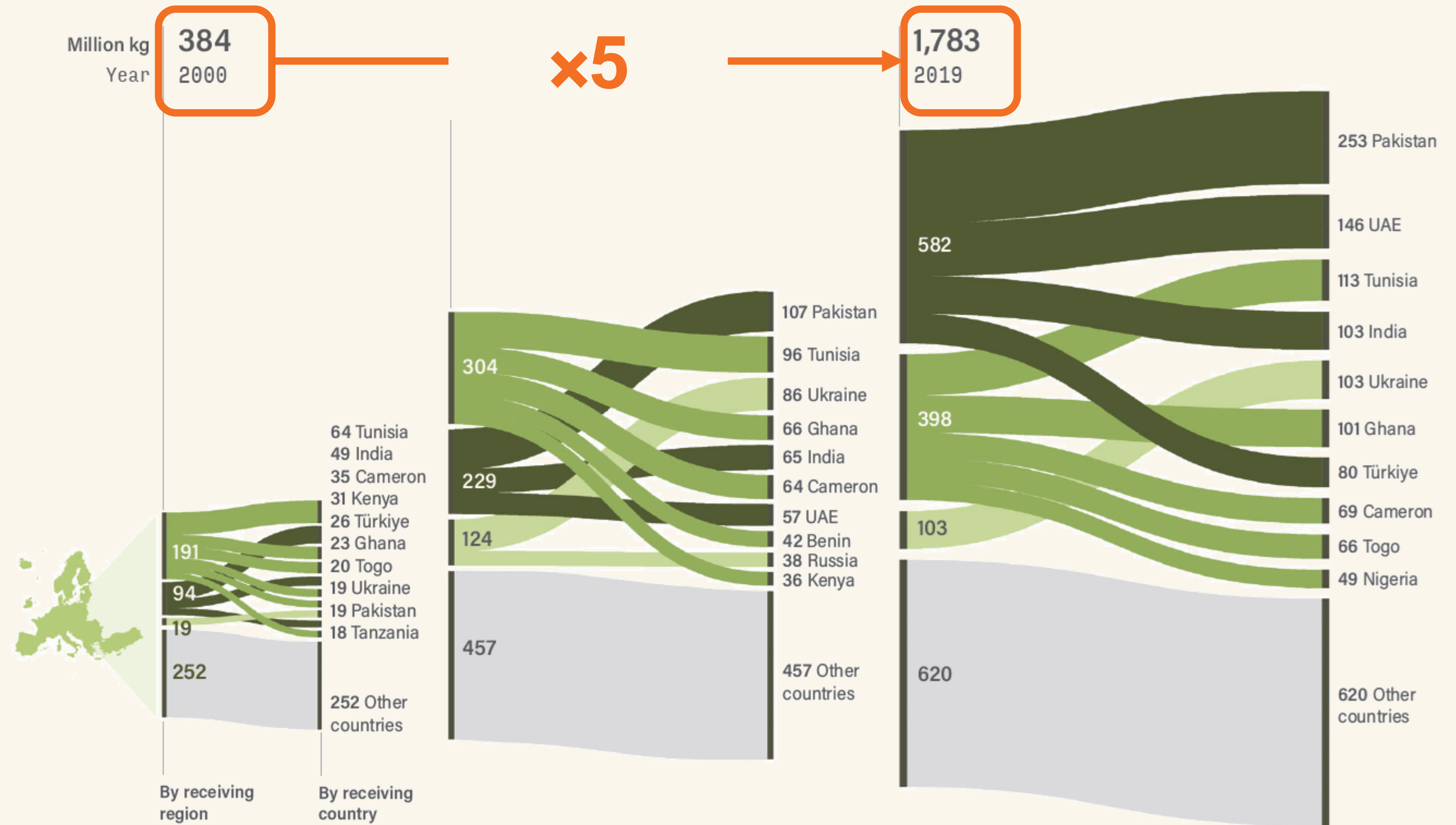


(1) Zalando, Attitude-Behavior Gap Report (2021); (2) European House-Ambrosetti elaboration of Changing markets, Tack-back trickery: an investigation into clothing take-back schemes (2023)



The textile industry is the **1st waste-exporter** to non-OECD countries, (93.5%), and fivefolded its volumes since 2000. However, the new Waste Shipment Regulation may risk not dealing properly with the issue of waste-in-disguise

EU exports of used textile (2000, 2010 and 2019)



Region – Country receiving textiles

■ Asia ■ Europe (Non EU) ■ Africa ■ Other



Out of 35 textile items discarded per capita on average every year in EU (with a total of 5,2 million tonnes of waste), 3 get recycled and less than 1 is second-handed inside the borders

EU textile waste volume and its composition by end-of-life destination





With a 28% increase in 2022, the second-hand luxury market seems booming, attracting billions in investments, yet precise valuations on size and profitability of the segment remain elusive

145

Brands have a resale shop¹

3.4x

Resale shop growth¹

10

Merger and acquisitions of secondhand platforms from 2021 to 2023²

>\$2.5bn

Resale-focused investment in total from 2021 to 2023²

Global, European and Italian business response



Ten years after the Rana Plaza collapsed, garment sourcing locations workers are still being exploited and **labor rights** have been **declining**

Risk score across 11 key sourcing locations

2017 → 2021

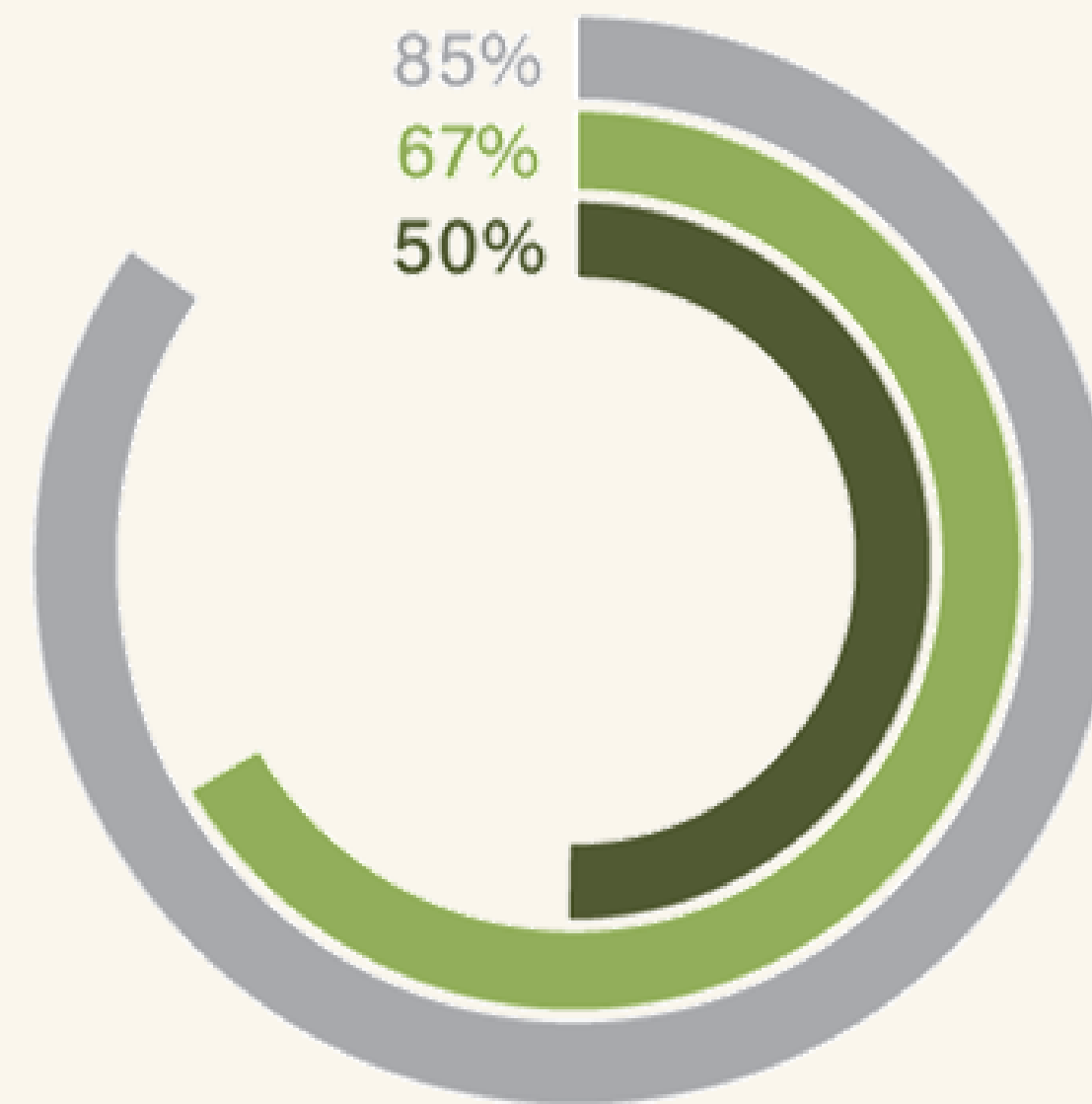


Index Score (0= Lowest Risk ; 10 = Highest Risk)

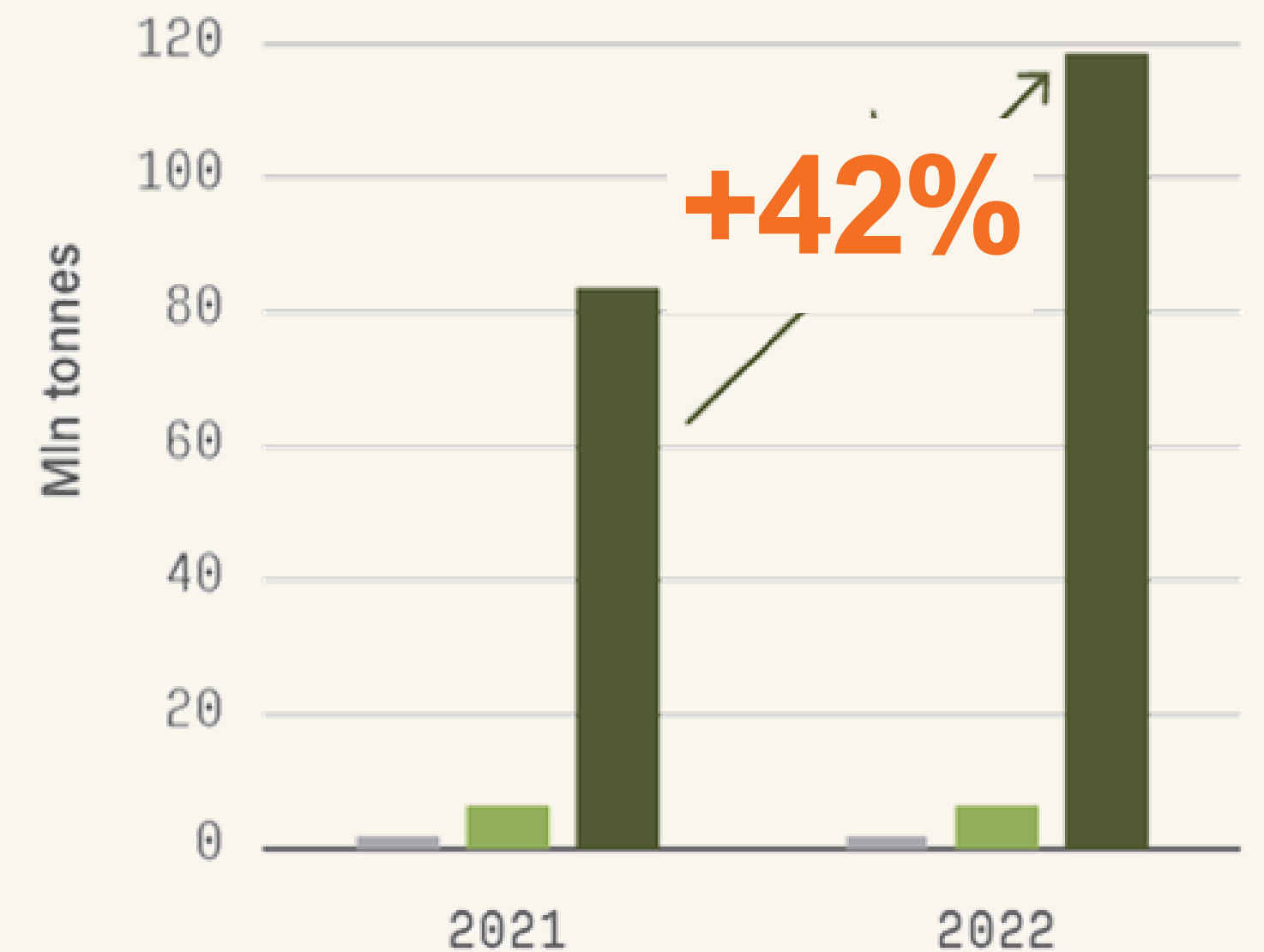


Companies taking climate action with CDP certification have more than **doubled from 2021. More accuracy in methodologies and broader calculation perimeters led to a **42%** rise in Scope 3**

CDP disclosures of Apparel stores, design & manufacturing, Textiles & fabric goods, luggage & bags 2022, by scope (n=311 companies)



CDP emissions of Apparel stores, design & manufacturing, Textiles & fabric goods, luggage & bags 2021 and 2022, by scope (n=58 companies)

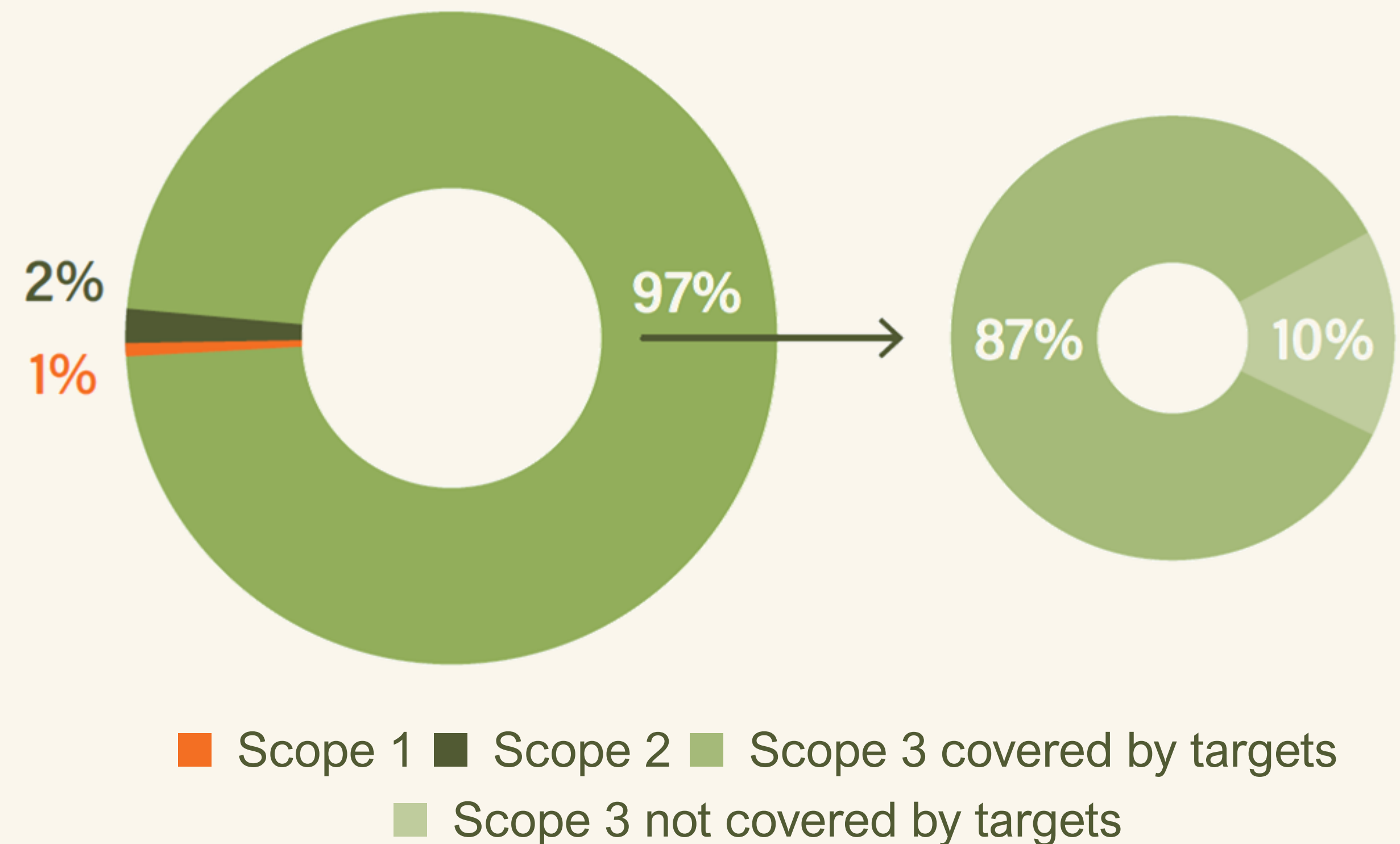


■ Scope 1 ■ Scope 2 ■ Scope 3



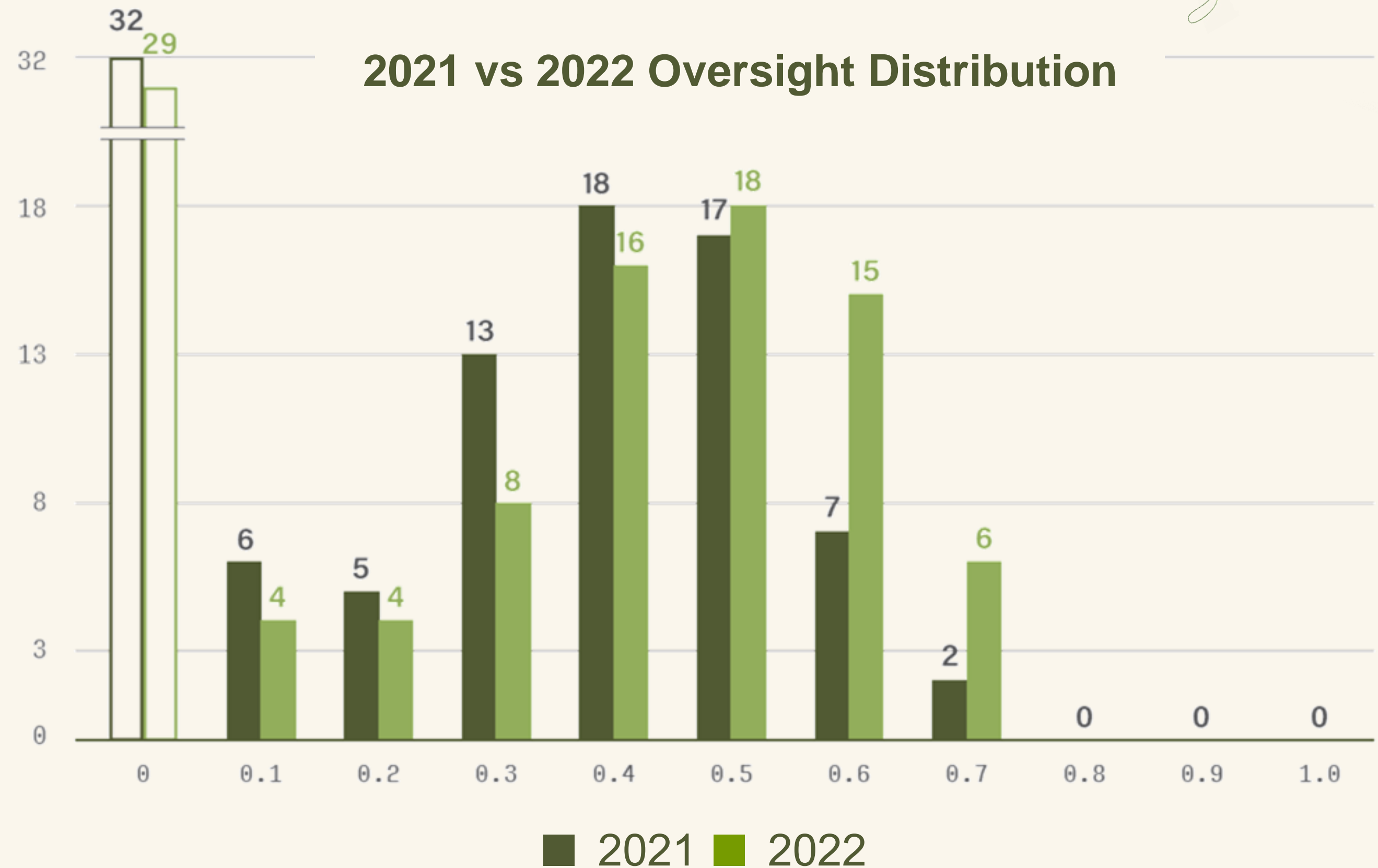
Pressure exerted on upstream actors is rising. Out of 30 global **retailers, the 12 reporting on sustainability focus on climate, with **87%** of their overall **Scope 3** emissions covered by **decarbonization** targets by 2030**

Retailers' CO₂ emissions: incidence by Scope and coverage of Scope 3 decarbonization targets [%]





European companies' oversight score increased by 17% from 2021 and those having a structured ESG Governance and sustainability linked MBOs outperform their peers on all ESG topics by an average of 36%




55 improved

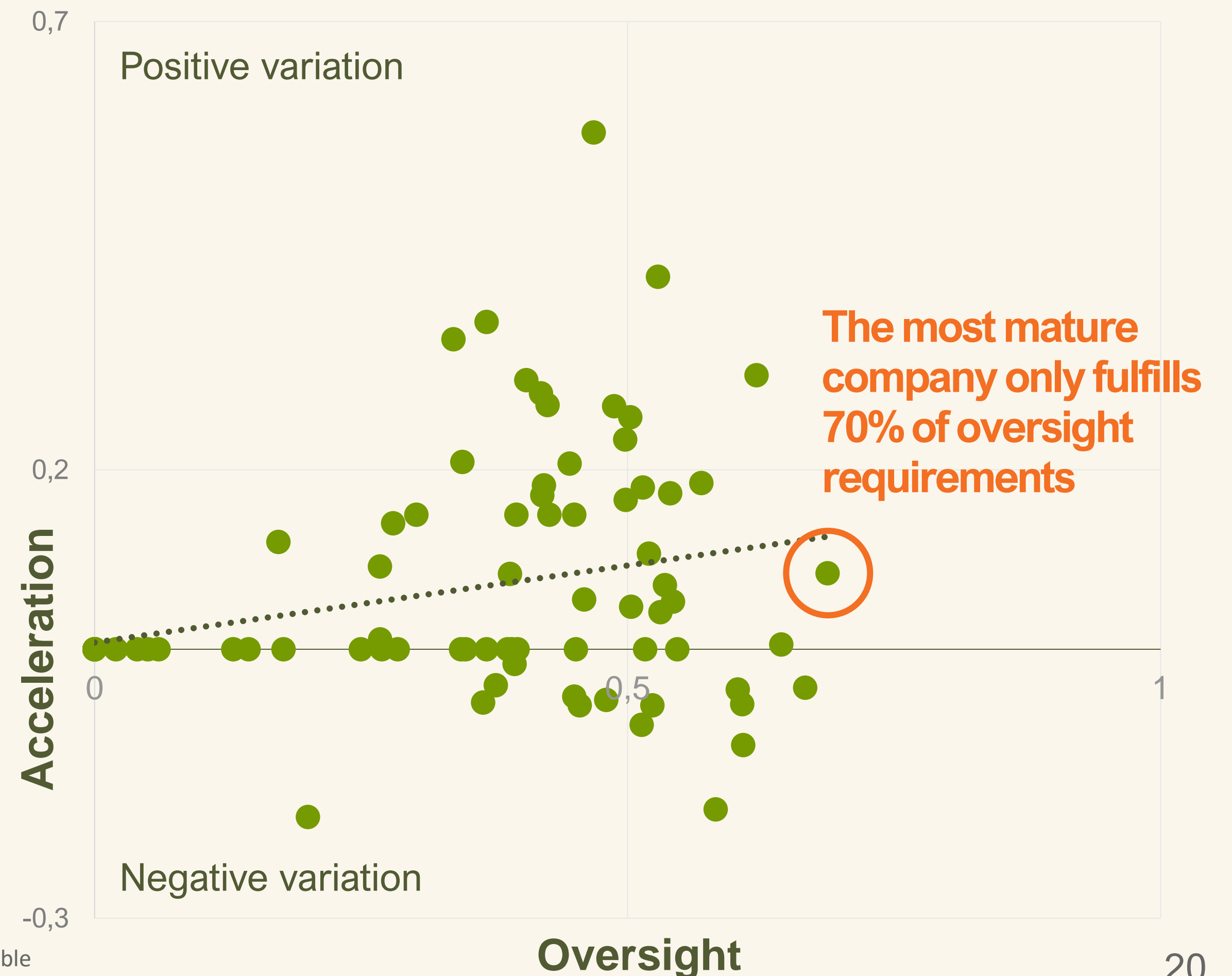

10 stable


6 worsened



Oversight on ESG issues shows a slight correlation with acceleration in performance, as the presence of multiple non-homogenous KPIs, evolving reporting scopes, and uncertainty of their significance make comparing performance challenging

Just Transition Readiness Index
(average performance variations on key ESG issues and their correlation with the company's oversight maturity)

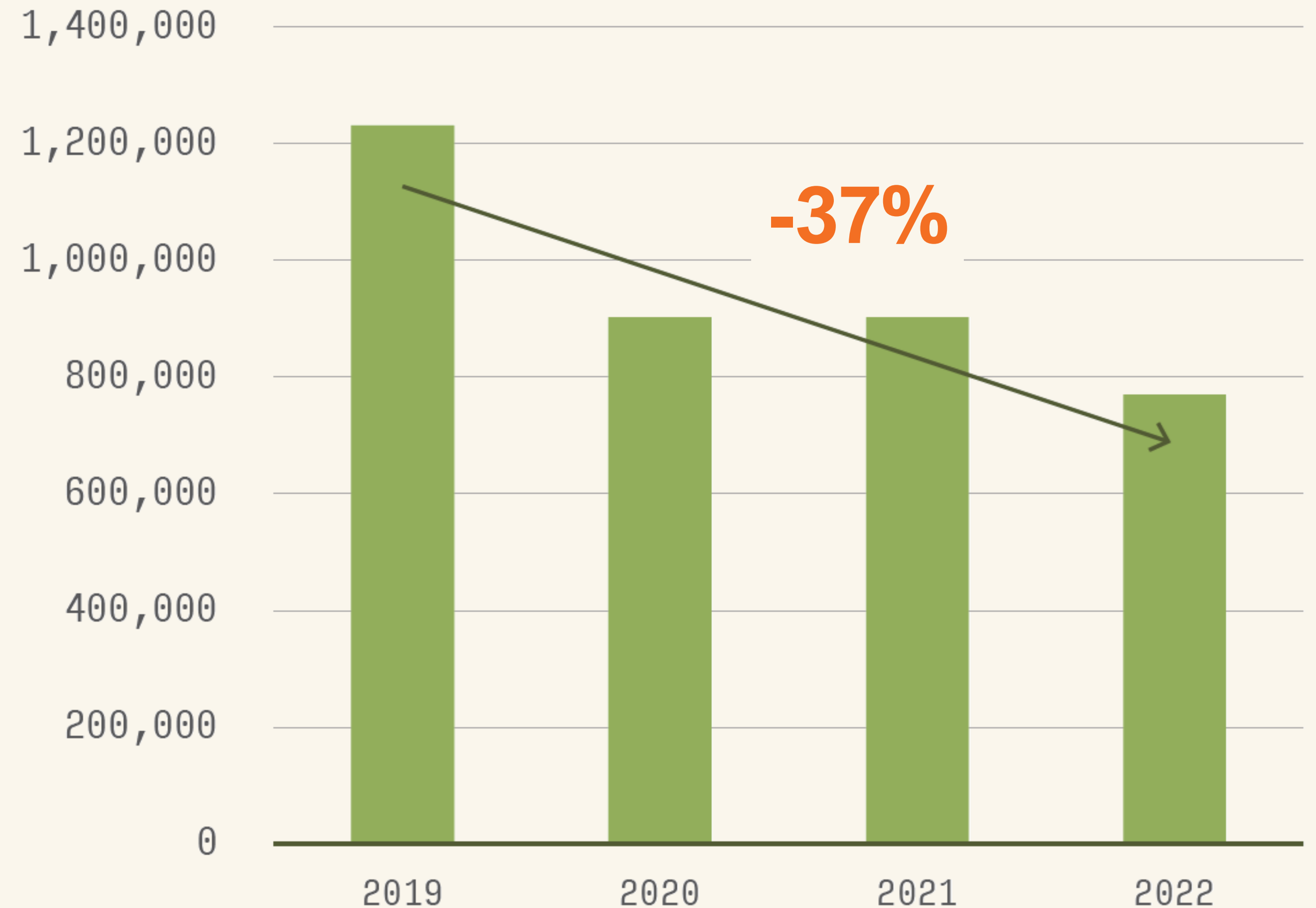


(1) The European House – Ambrosetti elaboration on all latest balance sheets and sustainability related publicly available information from European fashion and luxury value chain companies that will be subject to CSRD obligations



Consistency and commitment bring results: on GHG emission, among the 23 companies who reported continuously in the last 4 years, a 37% compound reduction of Scope 1 and 2 values was clearly visible

Cumulated Scope 1 and 2 emissions of 23 companies (tonnes CO₂eq)

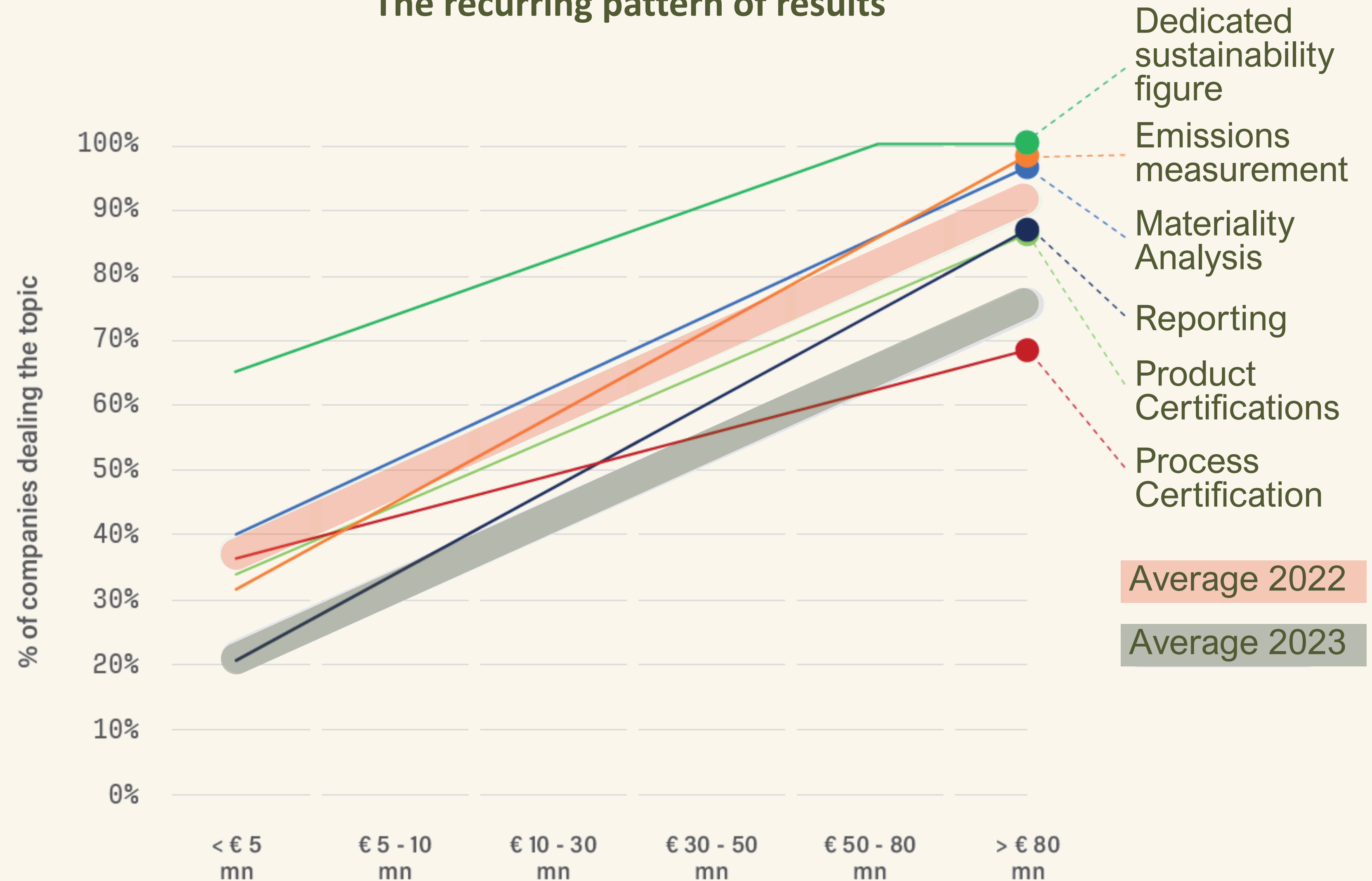


(1) The European House – Ambrosetti elaboration on all latest balance sheets and sustainability related publicly available information from European fashion and luxury value chain companies that will be subject to CSRD obligations



In Italian supply chain company size and sustainability remain directly proportional, while ESG oversight improved by 16% from 2021

The recurring pattern of results

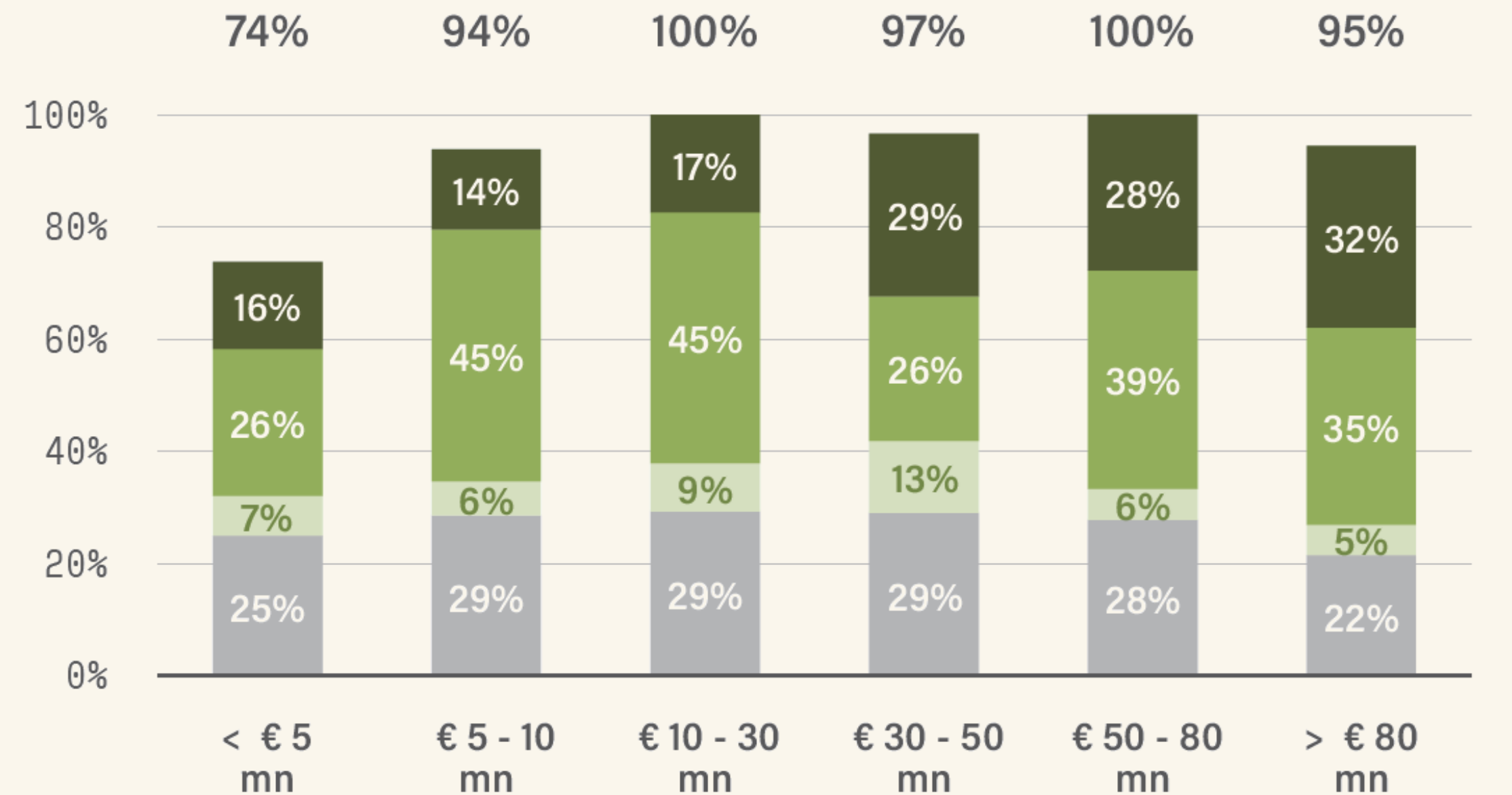




Brands keep pushing for change, but finance is coming

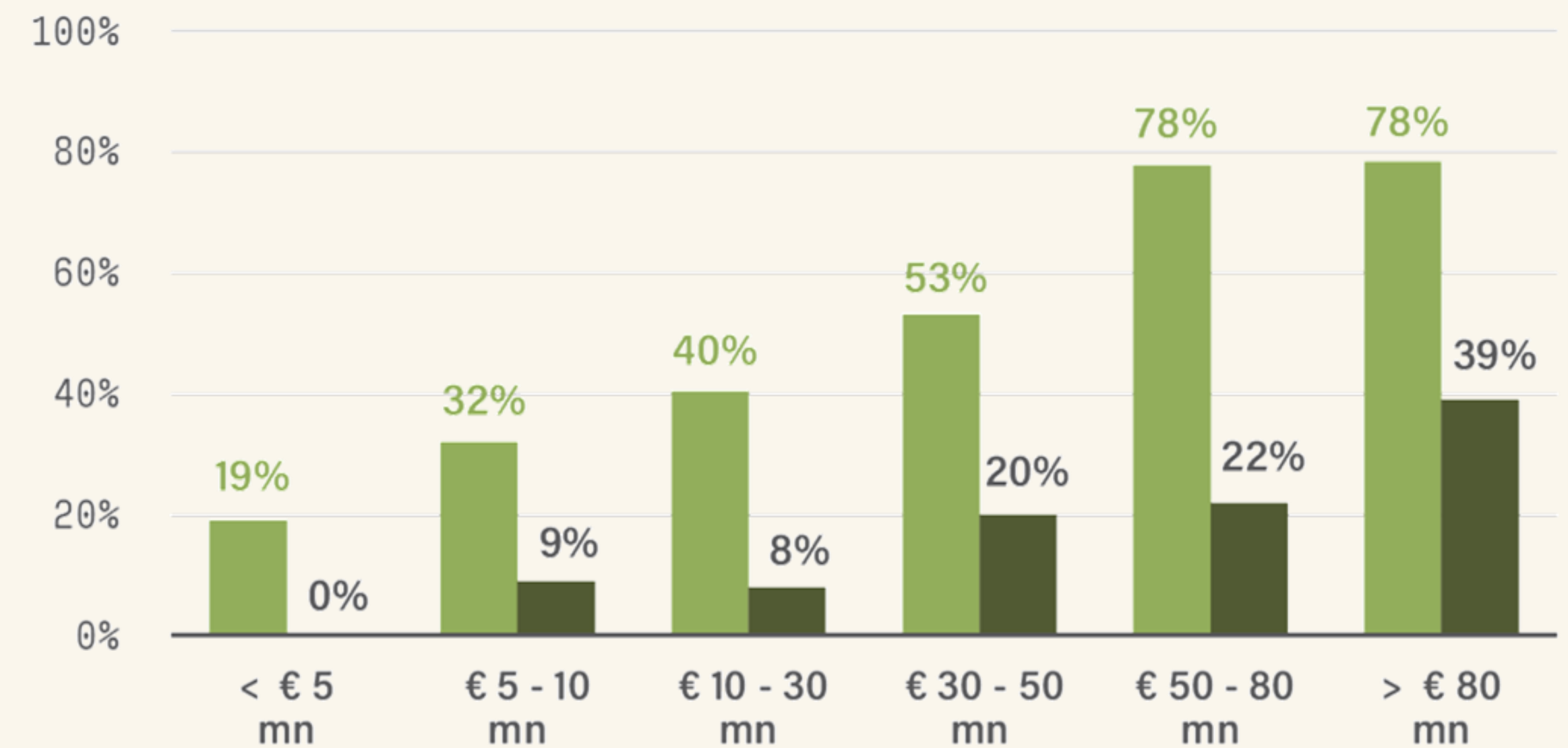
Companies that experienced an increasing attention on sustainability performance...

...FROM CLIENTS



- With an explicit request to improve sustainability performance
- Through training and awareness activities
- Through audit activities
- By filling out a survey

...FROM BANKS



- 2023 - Experienced an increasing attention from banks on ESG performance
- 2022 - Perceived external pressure from banks to implement a sustainability strategy

8 recommendations for a Just Fashion Transition



I. Anticipate market transition

- Adoption of guidelines and toolkits
- Update on evolution of European policies

#environmental impacts cut
#technological development (?)
#new climate targets
#pressure from banks



Partial implementation

II. Build multistakeholder task-forces led by national governments

- Agenda, priorities, stakeholders and lines of action
- Public funding and partnership with private financial institutions
- Advocacy

#Danish sectoral agreement
#UK Textile 2030 Strategy



No updates

III. Catalyse change through alliances

- Professional communities
- Overcome barriers to financing innovation
- Social procurement

#Fashion Pact Virtual PPA
#Himalaya Regenerative Fashion Living Lab
#GFA @Boston & @Copenhagen



Partial implementation



IV. Measure policy impact through minimum data for all

- Identify four indicators and calculation methodologies for:
 - Minimum wages
 - Water and Chemicals
 - Greenhouse gas emissions
 - Recyclable sources

#CSRD & ESRS
#China Climate Disclosure
#EU ESG Rating Regulation
#SAC decarbonization guidelines
#UNECE Study in Used Clothing



No updates

V. Promote a positive cultural shift

- School and university programs
- Corporate awareness
- Young people and music

UNECE Sustainability Pledge Initiative
BBC & GFA positive impact series
Climate Positive Initiative Harvard
Overheated tour by Billie Eilish



No updates

VI. Stimulate sustainability vanguard by Italian and French luxury value chains

- Reinvest a fixed percentage of brand margins and channel public investments for scalability of circular business models

#FR & IT confidential interlocations



No updates



NEW RECOMMENDATIONS

Promoting an integrated approach between recycling and reuse

To create virtuous synergies between **recycling** and **re-use** operators to effectively address the challenge of overproduction, promoting appropriate enhancement of the physical and **intangible durability** of eco-designed textiles, while reducing multi-materials garments.

HOW

- Mapping global textile end-of-life flows
- Revising textile waste classification system to prevent disposal of end-of-life garments through second-hand channels in developing countries
- Exploring long-term leasing for valuable garments

Making sustainable business choices more profitable

To unleash and harness EU companies' full potential for change by fostering the **development, deployment and large-scale adoption of green technologies** throughout the fashion value chain, drawing inspiration from the positive experience of the US IRA.

HOW

- Incentive schemes
- Public purchasing bonus points
- Tax relief and defiscalisation tools