

1ST EDITION

VENICE SUSTAINABLE FASHION FORUM

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VENICE, FONDAZIONE GIORGIO CINI

VENICE
SUSTAINABLE



JUST FASHION TRANSITION

STUDY CONDUCTED BY THE EUROPEAN HOUSE - AMBROSETTI



CONFINDUSTRIA VENEZIA
AREA METROPOLITANA DI VENEZIA E ROVIGO



The European House
Ambrosetti

JUST FASHION TRANSITION

THE COMMON THREAD OF JUST FASHION TRANSITION KEY MESSAGES

1.

THE FASHION INDUSTRY IN A CHANGING WORLD

1.1

Global market growth remains steady, with China and the US as main driving markets, with a surge in the e-commerce segment.

1.2

Fast fashion continues to grow as newer faster models acquire market share: fast fashion, social commerce and ultra fast fashion.

1.3

Circular business models are emerging but scalability is still far away, with different economic impacts heavily depending on the market segment.

2.

NAVIGATING COMPLEXITIES: STUMBLING BLOCKS TO SYSTEMIC CHANGE

2.1

The Fashion industry is part of a vicious circle between generated and suffered environmental impacts, despite **reliable and consistent data** to quantify them **are still missing**.

2.2

Although attention on the topic sparked from social issues, **pressures are now mainly focused on environmental impacts**, often limited to climate change.

2.3

Being one of the industries with the longest value chains often relying on subcontractors, Fashion poses **huge challenges in data traceability and governance**.

3.

SUSTAINABILITY TRENDSETTERS: PRESSURES AND EXPECTATION FROM STAKEHOLDERS

3.1

Institutions, markets and society are globally increasing pressure towards a sustainable transition. While international institutional bodies are acting to be the main drivers of change, the EU is leading the way leveraging finance as an ally to nurture the transition.

3.2

The European Green Deal **regulation aims at overcoming greenwashing also through new standardized measurement tools** focused on processes and products which, by assigning new responsibilities to larger companies, push them to act as drivers for the transition of the entire value chain. The effectiveness of such devices relies on the ability of the EU to define appropriate criteria and thresholds.

3.3

Certifications, ratings and clear targets stand to be key market levers to exert pressure for sustainable performances. However, they **still seem not able to live up to their promises of transparency and standardization**. In this context, while people's awareness appears to grow, consumers are not willing to pay a premium price for sustainability.

THE COMMON THREAD OF JUST FASHION TRANSITION **KEY MESSAGES**

4.

GLOBAL BUSINESS RESPONSE

4.1

The Fashion industry is making strong commitments at a collective level. **Several voluntary alliances and initiatives have been established** to face rising pressures and attempting to spark cooperation among upstream and downstream players.

4.2

Sustainability management is correlated to companies' dimensions. Large companies focus on environmental issues, especially setting targets on CO₂ emissions and raw materials, but the change in governance structure to ensure internal accountability is slower.

4.3

Decarbonisation in the fashion industry represents a huge investment opportunity still unaddressed.

New solutions are ready to be brought to scale. Cooperation along the value chain is critical and brands sit at the nexus of all stakeholders.

5.

THE ITALIAN VALUE CHAIN DEALING WITH SUSTAINABILITY

5.1

The Italian value chain is almost completely composed of small players. The profit margins rate between brands and supply chain shows important differences: that of brands is on average higher but more volatile, while that of supply chain is lower but more stable.

5.2

The readiness for transition is directly proportional to the size of the supply chain companies. There is a great specularity of behavior between large and small companies. Large ones are more active on reporting, performance monitoring and certification, small ones much less so.

5.3

Regardless of size, **pressure for supply chain companies comes from brands.** Institutional and financial pressures are not acknowledged as relevant. Supply chain companies are reactive to brand demands but not proactive to anticipate it.

5.4

The lack of a standard is considered the biggest barrier to transition by most companies, according to all supply chain actors and regardless of size.

THE COMMON THREAD OF JUST FASHION TRANSITION PROPOSALS

6. PROPOSALS FOR A GLOBAL JUST FASHION TRANSITION



I. Anticipate market transition.

To orient and focus the action of companies towards the adoption, also in advance, of the voluntary and mandatory instruments that the EU is developing as a global leader on sustainability, also with the aim of providing feedback and recommendations for improvement.



II. Build multistakeholder task-forces led by national governments.

To act as a transition enabler, the government shall consult in a flexible manner with key industry players, NGOs, industry experts, finance and academia to define a road map to support the industry in its sustainable transformation by engaging stakeholders and by working towards targets to address national specificities.



III. Catalyse change through alliances.

To foster alliances among all actors upstream and downstream the fashion supply chain, together with the financial sector, to disseminate good practices, but also to enable policy makers to make the best choices in the shortest possible time.



IV. Measure policy impact through minimum data for all.

To evaluate the effectiveness of policies and actions implemented, create an up-to-date database based on a small number of significant KPIs.



V. Promote a positive cultural shift.

To leverage the communication potential of positive messages and experiences (i.e. events, concerts dedicated to both environmental and social issues) to engage consumers in a cultural shift and win their consumption habits by breaking the barrier between the intention of buying sustainable and the actions.



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

To create, within the Quirinale Pact, a joint table between Italy and France to make luxury not only a symbol of quality but also a front-runner that leads the direction of fashion's just transition by playing a key role with European and international institutions (e.g. OECD).

JUST FASHION TRANSITION: INDEX OF THE STUDY

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INTRODUCTION

Venice Sustainable Fashion Forum is a unique and extraordinary initiative conceived, designed and implemented through the joint effort of four partners: The European House-Ambrosetti, Sistema Moda Italia, Camera Nazionale della Moda Italiana, e Confindustria Venezia-Rovigo.

The Italian Fashion & Luxury industry as a whole represents a turnover of some 100 billion and employs over 500,000 people in more than 60,000 companies along the numerous chains of materials transformation and products creation: the *Venice Sustainable Fashion Forum* originates from this awareness and the will to work jointly towards a concrete objective of sustainable transition, bringing together the companies all along the supply chains from materials to brands, to identify the priority challenges, indicate an agreed path of change and start out on a roadmap of effective transformation based on scientific and measurable evidence.

To make this challenge more effective and fact-based, The European House-Ambrosetti, condensed 9 months of strategic study work, guided by an Advisory Board and enriched by interviews with key experts of the subject, in this report that would like to give a level playing field on Sustainability in Fashion & Luxury Industry for all participants to the Forum and shed a light on a topic much debated but poorly analyzed for 1) its vastity, 2) the lack of unambiguous data of the industry and 3) need to treat this subject segmenting the industry itself.

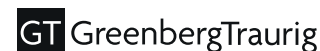
For this reason, The European House-Ambrosetti, with the contribution of some major brands, local institutions, and Industrial associations, launched a ESG survey to assess the status of Italian Supply Chains that, while being an important mean to gather updated data on the state of sustainable transition of Italian companies, serves as an incentive to companies to reflect on their level of maturity in the process toward sustainability.

18 partners supported this first edition, sharing its values and goals, convinced of the need to start a serious debate on sustainability in the Fashion Industry that leads to a true and JUST TRANSITION.

DIAMOND PARTNERS



Give Back Beauty



PLATINUM PARTNERS



PARTNERS



TECHNICAL PARTNERS



DATA AVAILABILITY AND RELIABILITY

Data collected and reported in this study often have different scopes, as the «fashion industry» lacks a standardized definition. Sometimes the industry is equated to a subset of products categories such as apparel, or textiles, leaving important products and processes out of the scope. Other times data aggregate product categories with overlapping scopes (e.g. leather goods and footwear), resulting in overestimation.

Overall, in the publications, textiles is the most studied section of the supply chain, and textile products are the most thoroughly examined. Consequently, also this study, given the availability of information, treats textiles more deeply than leather. This latter, in some cases, is included in certain analyses along with textiles, with a note of specification.

Industry segmentation depends on the source, and product segment definitions often include different aspects among different sources. Common segment denotations include luxury, premium, mid-market, value market, sportswear, fast fashion, mass market, and more; no standardized definition of these segments seem to have been adopted industry-wise.

Being the study oriented towards SMEs, it focuses on governance and transparency issues only in the industry benchmark analysis.

This study highlights the lack of coherence and reliability of data on fashion sustainability; however, we fully acknowledge the value of attempts at quantifying the state of affairs that are unclear and/or uncertain.

THE SOURCES AND THE ANALYSES THE STUDY COUNTS ON

2,700	italian companies in the supply chain and 196 italian companies analyzed for value added	26	industry leaders interviewed
167	italian companies assessed by a sustainability assessment questionnaire	34	sustainability certifications analysed
100	biggest european companies assessed on their sustainability management	13	collaboration initiatives/alliances analyzed
32	businesses analyzed on comparability between their ESG ratings	>200	articles and reports consulted
12	global leading fashion retailers analyzed	25/20	policy measures/frameworks analyzed



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

ADVISORY BOARD MEMBERS

The study benefited from the strategical contribution of an Advisory Board composed as follows:

Industry Experts

- Riccardo Bellini | Chief Executive Officer, **Chloè**
- Nevio Benvenuto | Head of CSR & Sustainability, **Gucci**
- Baptiste Cassan-Barnel | Sustainability Manager, **Bottega Veneta**
- Andrea Cottini | Chief Operations Officer, **Bottega Veneta**
- Rossella Ravagli | Sustainability Director, **Giorgio Armani**
- Federica Ruzzi | Chief Sustainability Officer, **Golden Goose**
- Veronica Tonini | Chief Sustainability & Strategy Coordinator, **Ferragamo**

Institutions and NGOs

- Paola Arosio | Head of New Brands and Sustainability projects, **Camera Nazionale della Moda Italiana**
- Federico Brugnoli | Scientific Delegate, **Assocalzaturifici**
- Andrea Crespi | Vice President Sustainability, **Sistema Moda Italia**
- Caterina Occhio | Founder and CEO, **SeeMe**
- Maria Teresa Pisani | Head, Sustainable Trade and Outreach Unit, **United Nations Economic Commission for Europe**
- Andrea Rubelli | President of the Textile, Apparel and Accessory Section, **Confindustria Venezia**

Partner Experts

- Guido Alfani | General Manager, **Carbonsink**
- Corrado Brondi | Founder and CEO, **Give Back Beauty**
- Enrico Cantoni | Retail, Fashion and Industry division director and leader Vertical Retail & Fashion global, **Sopra Steria Italy**
- Alessandro Di Benedetto | Sales Manager Fashion & Luxury, **DNV**
- Arcangelo D'Onofrio | Chief Operating Officer, **Temera**
- Luigi Fontanesi | Partner, **Greenberg Traurig/ Santa Maria**
- Luca Fresi | CEO, **Alperia**
- Giorgio Marcarino | General Manager EMEA **Chargeurs-PCC**
- Roberto Lombardi | International Senior Director Internal Audit & Sustainability, **Guess**
- Marco Pezzana | CEO, **Videndum Media Solutions**
- Alex Zucchi | President, **Acimit**

DATA PARTNERS AND WORKING GROUP

Data partners

We would like to thank **Crif** for its contribution in collecting the data throughout the complex Italian Fashion supply chain. As a technical partner, the Company played a key role by making available its rating questionnaire based on the methodology of "Synesgy – the CRIBIS D&B platform for knowing the ESG sustainability of supply chains" – further supplemented by The European House-Ambrosetti with its expertise and know-how to implement industry-specific questions.

We would also like to thank other key actors who helped us convey the questionnaire, without whom it would not have been possible to reach such a large number of companies. In particular, we would like to thank **Sistema Moda Italia** and **Assocalzaturifici** for disseminating the questionnaire to their members and **Gucci** for engaging most of its suppliers. Their contribution has been crucial in ensuring a solid and consistent picture of the Italian Fashion supply chain.

Working Group

The study has been developed by The European House – Ambrosetti. **Carlo Cici, Partner & Head of Sustainability Practice** has led the working group composed by:

- Aurora Adam (Analyst, Sustainability Practice)
- Elena Antiga (Professional, Global Fashion & Luxury Unit)
- Giulio Benelli (Analyst, Sustainability Practice)
- Isabella Chiara (Analyst, Sustainability Practice)
- Diana D'Isanto (Senior Professional, Sustainability Practice)
- Adele Fusi (Professional, Sustainability Practice)
- Matteo Rimini (Analyst, Sustainability Practice)
- Flavio Sciuccati (Senior Partner, Industrial Strategy and Policy practice & Head of the Global Fashion & Luxury Unit)
- Qi Shao (Analyst, Sustainability Practice)
- Giovanni Stanga (Analyst, Sustainability Practice)
- Anna Tagliatela (Analyst, Sustainability Practice)

INTERVIEWS WITH INDUSTRY EXPERTS

In order to better understand the state of the art and future development trajectories of the national and international Fashion industry, some of the leading private and institutional experts in the field were engaged through one-to-one interviews:

- Nevio Benvenuto | Head of CSR & Sustainability, **Gucci**
- Pietro Bertelli | Business Intelligence Responsible, **Alperia**
- Federico Brugnoli | Scientific Delegate, **Assocalzaturifici**
- Baptiste Cassan-Barnel | Sustainability Manager, **Bottega Veneta**
- Andrea Cottini | Chief Operations Officer, **Bottega Veneta**
- Arcangelo D'Onofrio | Chief Operating Officer, **Temera**
- Camilla Di Fonzo | Co-Partner, **Greenberg Traurig/ Santa Maria**
- Luigi Fontanesi | Partner, **Greenberg Traurig/ Santa Maria**
- Jalaj Hora | Vice President of Product Innovation and Consumer Creation, **Nike**
- Roberto Lombardi | International Senior Director Internal Audit & Sustainability, **Guess**
- Franca Nuti | President, **Associazione Italiana Chimici del Cuoi**
- Caterina Occhio | Founder and CEO, **SeeMe**
- Simone Pedrazzini | Director, **Quantis Italy**
- Pietro Pin | Founder, **Progetti concreti**
- Ugo Pretato | Partner and board member, **Studio Fieschi**
- Rossella Ravagli | Sustainability Director, **Giorgio Armani**
- Francesca Rinaldi | Director, **SDA Bocconi Monitor for Circular Fashion**
- Elisa Riva | Head of Marketing & Communication, **Carbonsink**
- Andrea Rubelli | President of the Textile, Apparel and Accessory Section, **Confindustria Venezia**
- Federica Ruzzi | Chief Sustainability Officer, **Golden Goose**
- Mauro Scalia | Director Sustainable Businesses, **Euratex**
- Riccardo Stefanelli | CEO & Executive Board Member, **Brunello Cucinelli**
- Maria Teresa Pisani | Head, Sustainable Trade and Outreach Unit, **United Nations Economic Commission for Europe**
- Veronica Tonini | Chief Sustainability & Strategy Coordinator, **Ferragamo**
- Dirk Vantghem | Director General, **Euratex**
- Alex Zucchi | President, **Acimit**

FOREWORD AND STUDY GOALS

The challenge of a fair transition is unprecedented and the fashion industry qualifies as a main character for addressing major challenges to it: it is one of the most globalized and heterogeneous industries in the world, with long and complex global value chains that play a key role with regards to climate change, raw materials and land use, water exploitation, chemical use, and labor exploitation.

In this context, however, the supply chain is inadequately addressed as all the main studies focus on what brands do. We are aware that brands alone cannot effectively make systemic improvements for the main impacts are concentrated in early stages of the value chain. For this reason, we have focused on industrial suppliers, putting on stand-by, at the moment, raw materials, product use and end-of-life.

The extent of supply chains, in addition to expanding the fragilities related to sustainability issues of the entire sector, makes data retrieval extremely difficult. In fact, on none of these issues is there any certain quantification, and finding consistent data seems to be one of a big challenge for all actors involved in the supply chain. The climate issue is one of the main examples of uncertainty, with different sources assuming a share of emissions from the sector ranging from 2% to 8%. But water consumption also finds discordant sources, while as for social and human rights data it seems to be challenging to quantify.

Now we are witnessing a remarkable acceleration: the institutions are pressing for a timely transition, although sometimes there are mixed messages about when and how to achieve it. The European Union above all is determined to play a leading role: it has set an ambitious goal of becoming the first climate-neutral continent by 2050 and has drafted a roadmap of measures with intermediate targets for 2030.

Overall, the European framework aims to leverage transparency to enable consumers to drive the transition with the support of finance. To this end, a Sustainable Finance Taxonomy has been developed to measure the contribution companies to sustainable development in terms of revenues, capex and opex and to set ambitious technical thresholds to define a truly sustainable business. Suppliers will be indirectly involved too, since requirements often concern the product life cycle and, therefore, all components provided along the supply chain will be taken into consideration during the assessment.

In this context, **the fashion industry is also under unprecedented scrutiny in relation to the various measures contained in the European Union's Sustainable Textiles Strategy, as part of the European Union's Circular Economy Plan.** This is also accompanied by new tools for measuring the actual sustainability of fashion products: first and foremost the Product Environmental Footprint (PEF), which will be able to guarantee a single standard for measuring the environmental impact of each product.

Companies are looking at this scenario with uncertainty: take a defensive stance in the face of major transition changes or try to anticipate them by changing their business model?

This report will allow companies, in a concise and pragmatic way, to look beyond their own specific market. Aimed at analyzing relevant scenarios, policy trends and sustainability practices adoption levels among companies in the Fashion industry, **the study highlights critical issues and consequently develops recommendations for both institutions and key players in the sector so that the transition, besides being sustainable, is also fair for companies.**

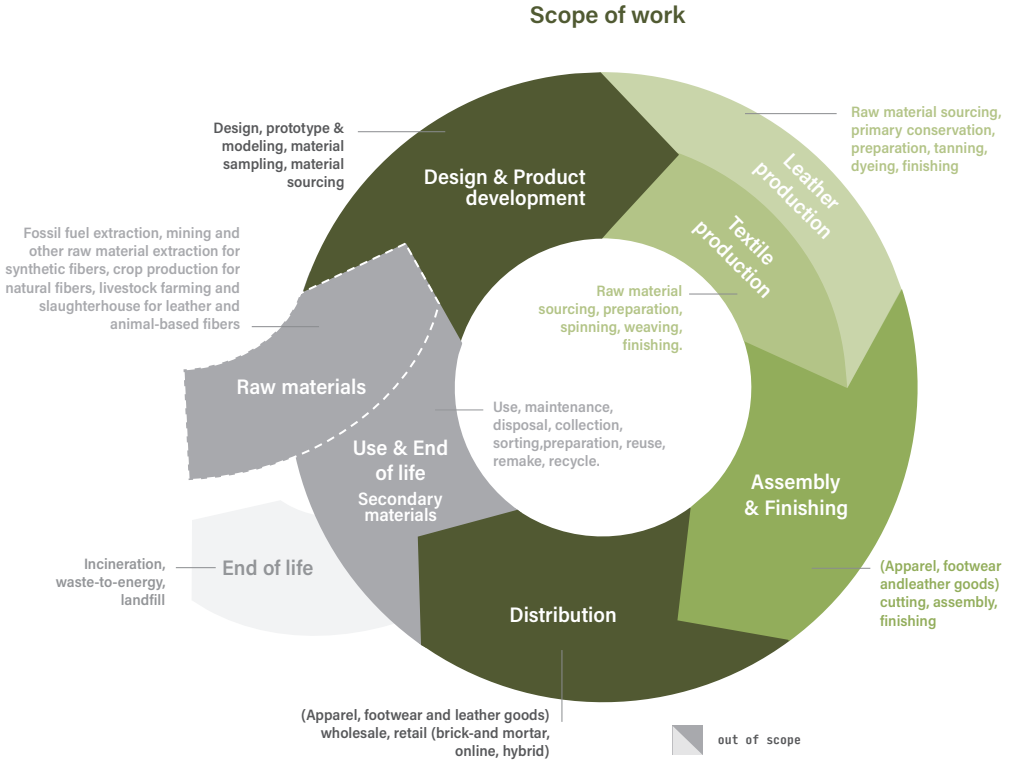
NARROWING THE SCOPE

This study aims at considering all the main social and environmental impacts along value chains and associated with different Fashion products categories. However, aware that impacts and sustainability issues vary vastly from product to product as well as for each supply chain, a wide approach has been chosen.

To bring key topics to focus, the report covers 3 product categories: Footwear, Textile and Clothing, and Leather goods. As a consequence, fur, glasses, jewelry and other accessories excluding the leather-based ones are, for now, not considered. Additionally, household textiles such as sheets and beddings are not within the scope of this study.

For the purpose of this study 6 main stages of the fashion value chain were identified, including raw material, design & product development, material production (textile & leather), assembly & finishing, distribution, and end of life. Logistics & transportation and packing were not considered in order to maintain a focus on activities that are most common among actors in the fashion sector and thus addressing sustainability issues that are particular and relevant to them. Furthermore, while the crucial role played by raw material extraction and end of life management is fully acknowledged both in terms of volume of activity and relevance of its environmental and social impacts, these two stages are excluded from the main scope of examination. This choice was functional to focus on the topics and activities that are within the influence of businesses' decision powers. For these reasons and for the limited availability of data with inconsistent scope of reference, focus has been constrained to the scope illustrated in this figure.

Finally, we acknowledge that there are technological advents that are shaping sustainability solutions and the sector in general; however, it has not been the focus of the study. Given the significance and the potential of the topic, it shall be addressed in future editions of the Forum.



Central stages (from Design and Product development to Distribution) are the focus of the study. Raw materials and Use & End life, where possible, have been considered without pretense of exhaustivity.

1.

THE FASHION INDUSTRY IN A CHANGING WORLD

KEY MESSAGE

1.1

Global market growth remains steady, with China and the US as main driving markets, with a surge in the e-commerce segment.

KEY MESSAGE

1.2

Fast fashion continues to grow as newer faster models acquire market share: fast fashion, social commerce and ultra fast fashion.

KEY MESSAGE

1.3

Circular business models are emerging but scalability is still far away, with different economic impacts heavily depending on the market segment.



KEY MESSAGE
1.1

GLOBAL MARKET GROWTH REMAINS STEADY,
WITH CHINA AND THE US AS MAIN DRIVING MARKETS,
WITH A SURGE IN THE E-COMMERCE SEGMENT

GLOBAL FASHION MARKET GROWS STEADILY AT ALMOST 6% A YEAR

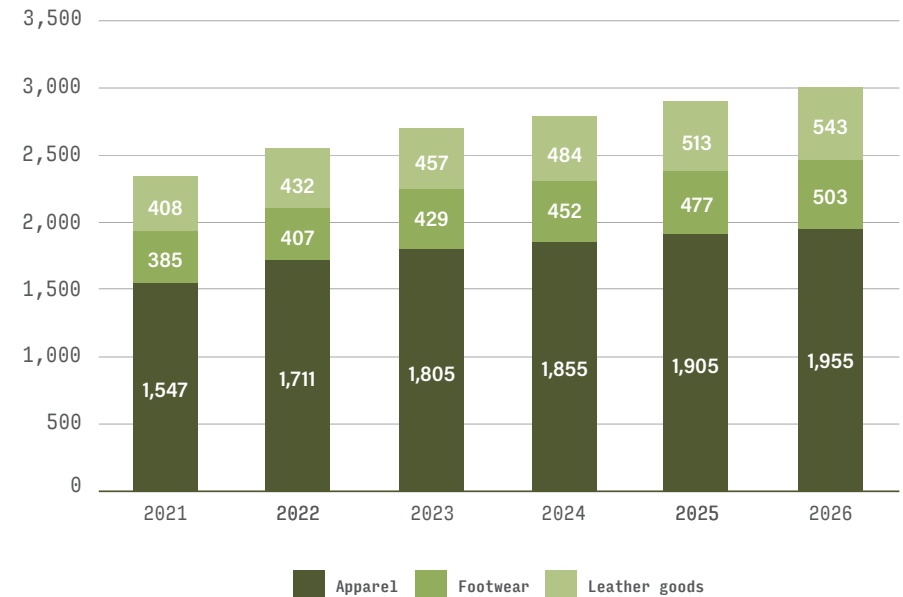
The global apparel market is one of the most important segments in retail and its revenue was calculated to amount to some \$1.5-\$2 trillion in 2021, equivalent to around 1.8% of Global Domestic Product (GDP)¹. Forecasts predict that the apparel market will increase to approximately 2 trillion dollars by 2026, with a compound annual growth rate (CAGR) of 5.9%¹.

Footwear registered a total revenue of \$385.46 billion globally in 2021, about a quarter of the size of the global apparel market. The global footwear market is expected to grow at 5.5% every year though 2026. Among footwear subsegments, the sneaker market shows most potential, with a higher CAGR of 6.9%².

The global leather goods market size is estimated at \$408 billion in 2021, slightly over a quarter of the apparel market size (here leather goods include product categories overlapping with apparel and footwear segments mentioned above) and is expected to grow at a CAGR of 5.9% from 2021 to 2026³.

The pandemic exacerbated inequalities in performance both in terms of brands and geographical market breakdown. As lockdowns were implemented in major retail markets, companies with a strong digital presence or agile enough to quickly adapt to the changing shopping paradigm quickly recovered as brands relying on traditional physical stores lagged behind. By region, US and China are estimated to recover faster than Europe in both non-luxury and luxury fashion markets. In particular, luxury fashion sales in China are set to rise with a growth rate over 90% compared to 2019, possibly driven by an unprecedented fast-growing middle class with disposable income⁴.

Global fashion market size forecast 2021-2026 (billion USD)



(1) The European House-Ambrosetti elaboration of P. Smith, Statista: Global apparel market - statistics & facts (2022) (2) The European House-Ambrosetti elaboration of Statista: Global footwear market (2021) (3) The European House-Ambrosetti elaboration of Grandview Research: Leather Goods Market Size, Share & Trends Analysis Report By Product (Footwear, Home Decor, Apparel), By Type (Genuine, Synthetic), By Region (North America, Asia Pacific), And Segment Forecasts, 2021 - 2028 (2021) (4) McKinsey: The State of Fashion (2022), sales for 2021 and 2022 are projected.

CHINA'S MARKET GROWTH POTENTIAL IS MORE EVIDENT IN THE THE E-COMMERCE SEGMENT

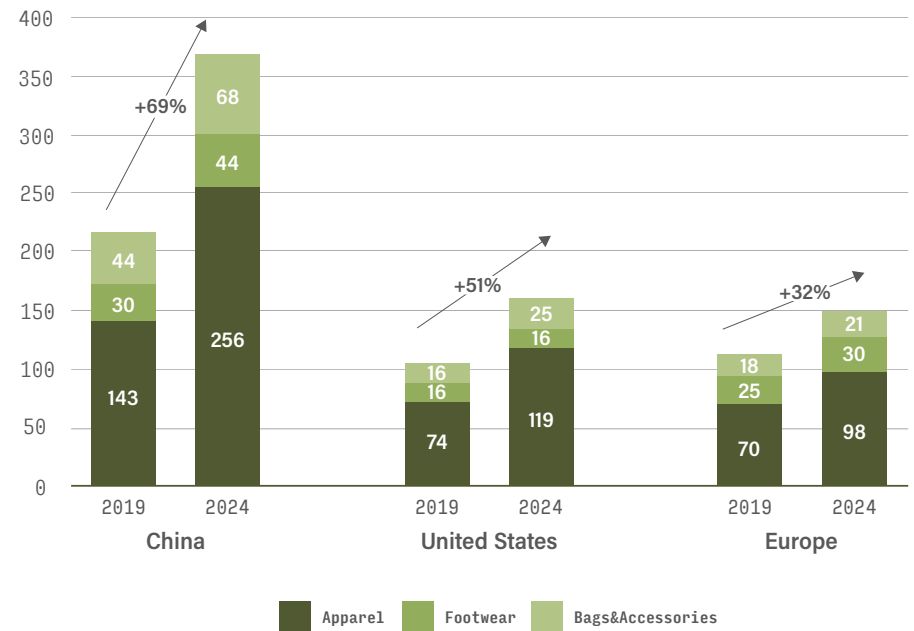
Physical, mall-based retail stores' way downhill has started since at least 2010. Atlantic coined the term "retail apocalypse" to describe the "beginning of the end" for traditional, brick-and-mortar commerce, as roughly 9,000 chain stores closed in the US in 2017 and important retailers such as Forever 21 and Neiman Marcus filed for bankruptcy in the following years¹.

Although many factors including economic crises and change in spending habits contributed to the decline, a main reason is attributable to the rise of e-commerce. A 2017 Business Insider article dubbed it "the Amazon effect," citing estimates that as much as 50% of retail industry growth was attributed to the e-commerce giant proportions². In the fashion industry, share of online purchases increased from 14% in 2017 to 22% in 2021, and is expected to gain more penetration in the next 5 years. Overall e-commerce fashion industry is expected to grow at a CARG of 7.2% through 2025, faster than the apparel or footwear market growth on average³.

The pandemic has accelerated the retail apocalypse and it appears that the change in consumer behaviors due to lockdowns may become permanent. Total fashion e-commerce sales grew 26.5% in 2020 compared to the previous year, all while the apparel and footwear market worldwide suffered a 11% loss in revenue³.

Notably, in the e-commerce segment, Chinese consumers collectively outspent their American and European counterparts already in 2019, registering \$217.6 billion in revenue, equivalent to the US and European market combined. Thanks to a higher penetration, the gap is expected to further grow in the next couple of years³.

E-commerce growth forecast in Apparel, Footwear and Bags & Accessories (billion USD)⁴



(1) The Atlantic, Derek Thompson: What in the World Is Causing the Retail Meltdown of 2017 (2017) (2) Business Insider, Kate Taylor: One Statistic Shows How Much Amazon Could Dominate The Future Of Retail (2017) (3) The European House – Ambrosetti elaboration of Common Thread: 10 Trends Styling 2022's Ecommerce Fashion Industry: Growth + Data in Online Apparel & Accessories Market (2022) (4) The European House – Ambrosetti elaboration of Online Apparel & Accessories Market (2022).



KEY MESSAGE
1.2

FAST FASHION CONTINUES TO GROW AS NEWER FASTER
MODELS ACQUIRE MARKET SHARE: FAST FASHION,
SOCIAL COMMERCE AND ULTRA FAST FASHION

FAST FASHION IS EXPECTED TO GROW STEADILY, DRIVEN BY YOUTH

The success of fast fashion helped double the size of the fashion industry between 2000 and 2014. In 2021, the fast fashion sector registered an increase of 22% in revenue from 2020¹.

Most of such growth is driven by younger generations: most of millennials become autonomous spenders after the advent of fast fashion, while Gen Zers are born into it. It is arguable that they never knew the world without fast fashion, and expectations for cheap and trendy clothes are high. In a 2022 survey, affordability emerged as the second most important factor in Gen Zers' purchasing decisions, next to quality of product or service: 62% of Gen Zers reported affordability is important, a marginal difference from 64% who value quality of products/services. Compared to the aggregate data from consumers of different age groups, Gen Zers value less the factor of quality (64 % Gen Zers vs. 71% overall), and more the factor of affordability (62% Gen Zers v.s. 53% overall).

Although Gen Zers show a stronger interest in sustainability and brand transparency than older generations, only 28% (vs. 24% overall) rated sustainability as an important factor in purchasing decisions, putting it at the sixth place among evaluation criteria².



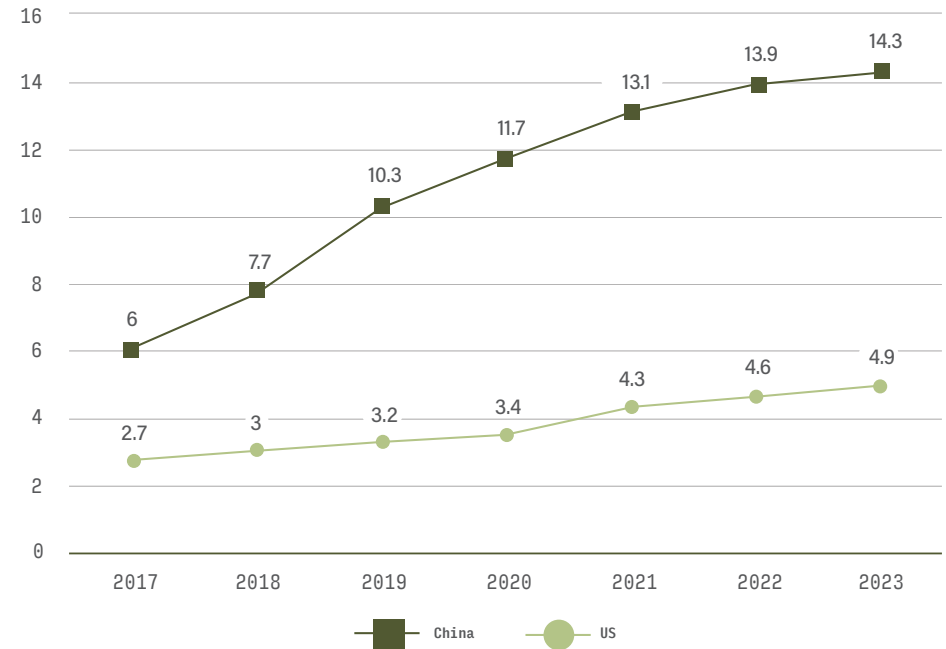
(1) The European House – Ambrosetti elaboration of Business Research Company data (2021) (2) Sam Gutierrez, SurveyMonkey: Momentive Study: Gen Z social media and shopping habits (2021).

SOCIAL COMMERCE IS GROWING FASTER THAN TRADITIONAL E-COMMERCE SALES, ESPECIALLY IN CHINA AND IN THE US

On top of their closeness to affordable clothes, the youth is also more prone to buy fashion items on social platforms or make purchasing decisions based on social media influences. 61% of Gen Zers (aged 24 and under) and 53% of millennials (aged 25-40) follow brands on social media, and a large number (49% and 38%, respectively) say they've made a clothing purchase based on a recommendation from a social media influencer, according to a 2021 survey¹. In the meantime, social commerce is growing faster than traditional e-commerce sales, especially in China and in the US. In 2021, China's social commerce sales is estimated to have reached \$363 billion, an increase of 35.5% compared to 2020. In the US, purchases made on social media platforms accounted for 4.3% of total e-commerce sales, almost double that of 2017².

The oldest Gen Zers will turn 25 in 2022. With Millennials entering a different phase of their careers and Gen Zers becoming autonomous consumers, it is expected that collective spending power of these two generations will continue to rise, implying further room for growth for fast fashion brands. While brands are making sustainability claims and engaging in social and political issues possibly as a response to the youth's sensitivity, there is no sign that the problem at root- fast consumption cycles – is being addressed.

Social Commerce Penetration in China and the US, 2017-2023 (% of total retail e-commerce sales)²



(1) Sam Gutierrez, SurveyMonkey: Momentive Study: Gen Z social media and shopping habits (2021) (2) eMarketer: US social commerce is following in China's footsteps (2021).

FROM FAST TO ULTRA FAST, PRODUCTION CYCLES GET SHORTER AND SHORTER

Before the 1990s, fashion brands had a typical cycle of 9 months between the design stage and the delivery to sales points. In the late 1990s, Zara pioneered the fast fashion model, cutting the production cycle down to 4 weeks, with modified articles appearing on the sale floor in as short as 15 days¹. The advent of Zara forced older brands like H&M, Gap and Uniqlo to pivot into the new model. By the end of the 20th century, the fashion industry had 52 “micro-seasons”, and the shortening of production cycles was only to go on.

In mid-2010, a movement dubbed as ultra-fast-fashion emerged as companies like Fashion Nova, Boohoo and ASOS further streamlined the value chain, creating a “Direct-to-Consumer” version of fast-fashion².

In 2019, Shein, a Chinese online fashion retailer began its expansion in the US market. Shein is pioneering a newer, faster model: with a strong online presence and a highly digitized, vertically integrated supply chain, Shein uses big data analysis from search trends and social media to understand what’s hot and churns out a new article ready for sale in as little as 3 days³.

In the meantime, clothes got cheaper. From 1995 to 2014, clothing prices went down 53% in the UK, while overall consumer goods prices rose by 49%². Easy access to cheap labor is only to increase, as globalization continues, and China invests several billions US dollars in the Belt&Road initiative, passing through a majority of textile production countries⁴.

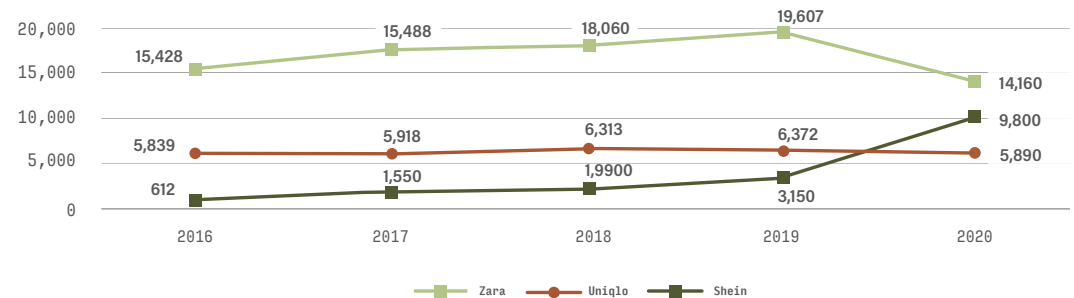
Consumers are responding to this abundance and convenience. On May 17 2019, Shein ended Amazon’s 152 day streak as the most downloaded shopping app in the US, and by May 2021, Shein was the top iOS shopping app in 54 countries³.

(1) The European House – Ambrosetti elaboration of Mathew Brennan: Shein: the Tiktok of ecommerce (2021) (2) Fast Company: How Zara Plans to make its fast fashion empire more sustainable (2019) (3) Business of Apps: Shein Revenue and Usage Statistics (2022) (4) McKinsey: Style that’s sustainable: a new fast fashion formula.

Production cycles get shorter, while prices get lower



Revenue of three fast fashion brands, 2016-2020 (million USD)





KEY MESSAGE

1.3

CIRCULAR BUSINESS MODELS ARE EMERGING
BUT SCALABILITY IS STILL FAR AWAY,
WITH DIFFERENT ECONOMIC IMPACTS HEAVILY
DEPENDING ON THE MARKET SEGMENT

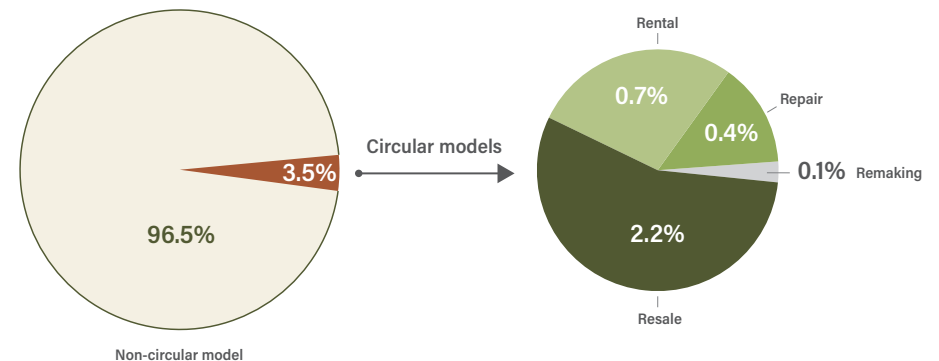
CIRCULAR MODELS ARE EMERGING, BUT REMAIN A SMALL PERCENTAGE OF THE CURRENT MARKET

In recent years, thanks to a regulatory push for sustainability and rising consumer awareness, circular consumption models have been placed to the center of many discussions in the fashion industry. However, contrary to the apparent relevance of the topic, the market share of circular models is still limited. As of 2019, emerging circular business models, including resale, rental, repair and remaking, represent only 3.5% of global fashion market, equivalent of \$73 billion¹.

The Ellen MacArthur foundation estimates that the four circular model combined have the potential to gain market share up to 23% of the global fashion market by 2030¹, which would require a rather radical shift in consumer behaviors. It is worth noting, however, that second-hand market has seen significant growth in the past decade, with last year registering a record increase in sales at 32%². The global second-hand apparel market is estimated to grow 3 times faster than the apparel market on average, with the highest annual growth rate at 24% expected for 2022.

To enable the scalability of circular business models, it is essential to make systemic shifts. The European Environmental Agency (EEA) considers that three layers in a circular textiles system: consumer education and behavioral change, policy options, and circular business models. It is important to note that the three layers acting on three different types of stakeholders must work together in synergy for a timely and just transition³.

Market size of resale, rental, repair and remaking as share of global fashion market (billion USD), 2019¹



(1) The European House – Ambrosetti elaboration of Ellen MacArthur Foundation: Circular business models Redefining growth for a thriving fashion industry (2021) (2) ThredUp: Resale Report (2022) (3) EEA: Textiles and the environment in a circular economy (2019).

THE FASHION SECTORS IS IN NEED OF A SHARED VOCABULARY TO TALK ABOUT CIRCULAR BUSINESS MODELS

Discussions around circular business models in the sector often do not share the same terminologies or definitions.

Ellen MacArthur Foundation², for instance, considers 4 circular models denoted as “repair, rental, resale and remaking” and defines the ensemble of the 4 models as the “circular” portion of the global fashion market. However, it is unclear whether these definitions leaves out actions that do not affect profit models, such as design for longevity, or collection and sorting of used goods. Fashion4good³, in turn, considers rental (single occasion), subscription-rental (access to a range of items over a period) and recommence (resale by original maker), which can be argued to be subsets of Ellen MacArthur Foundation’s definitions. Other classifications brought forward include industrial and post-industrial recycling, textile-to-textile and recycling feedstock from other industries, and more⁴.

In an attempt to classify most circular business models in the sector, L. Coscieme published a framework that list four business approaches: longevity and durability, accessed-based, collection and resale, and recycling and reuse of materials. This framework could be used for developing a shared vocabulary that facilitates the future development of circularity in fashion¹.

4 business approaches by Coscieme¹

Longevity and durability focused on extending the lifetime of garments, thus reducing the need for purchasing new items	often combined with design for repair , customized production for promoting emotional product attachment, and offers of repair and maintenance services
Access-based models based on renting, leasing, and sharing of garments and aims to lower resource utilization by increasing the use rate of the product stock	renting of workwear or hospital or restaurant linen, single-occasion clothing (including wedding or dinner dresses), and baby clothes (including reusable diapers) or everyday-wardrobe sharing
Collection and resale focused extending the useful life of textiles beyond the first user	include secondhand retail as well as collection and resale to the market for reuse and recycling
Recycling and reuse of materials emphasizing turning textile waste into raw materials to produce new textiles	reusing parts and cuts and producing recycled fibers for re-spinning and use in other products

(1) L. Coscieme et al.: A framework of circular business models for fashion and textiles: the role of business-model, technical, and social innovation (2021) (2) Ellen MacArthur Foundation: Circular business models Redefining growth for a thriving fashion industry (2021) (3) Fashion4Good: The Future of Circular Fashion: assessing the viability of circular business models (2021), here rental refers to a one-off rental of a garment for a short time period, subscription-rental refers to a monthly fee paid for access to a range of garments, and re-commerce refers to the recovery and resale of a garment by the original retailer (4) Global Fashion Agenda: Scaling circularity (2022).

THE INDUSTRY HAS GREAT POTENTIAL FOR CIRCULARITY, BUT SCALABILITY AND FINANCIAL VIABILITY ARE UNCERTAIN

The shift to a circular fashion system has just begun. 12.5% of the fashion industry has committed to circularity, and many leading retailers have set bold ambitions towards a sustainable future¹. However, today, of the estimated 15% of garment waste that gets recycled, only 1% goes back into creating new clothing².

Estimates on how quick and how far the industry will go in the next decade are discordant and lack standardized measurements. Dependent on the methodology of assessment and assumptions on the time horizon, the sector's potential for circularity ranges from 23% to 80% and such uncertainty becomes more evident as one looks more closely at market segmentation. In other words, even the same future scenario might have different effects on different segments of the market. In an attempt to assess the financial viability of different circular models, for instance, Fashion4Good concludes that single-occasion rental could bring an 60% increase in operating margin for luxury brands, but at the same time imply a 346% decrease for value market actors.

Estimations of circular models' business potential

By Ellen MacArthur estimates, circular models have the potential for an overall

16%
emissions reduction...

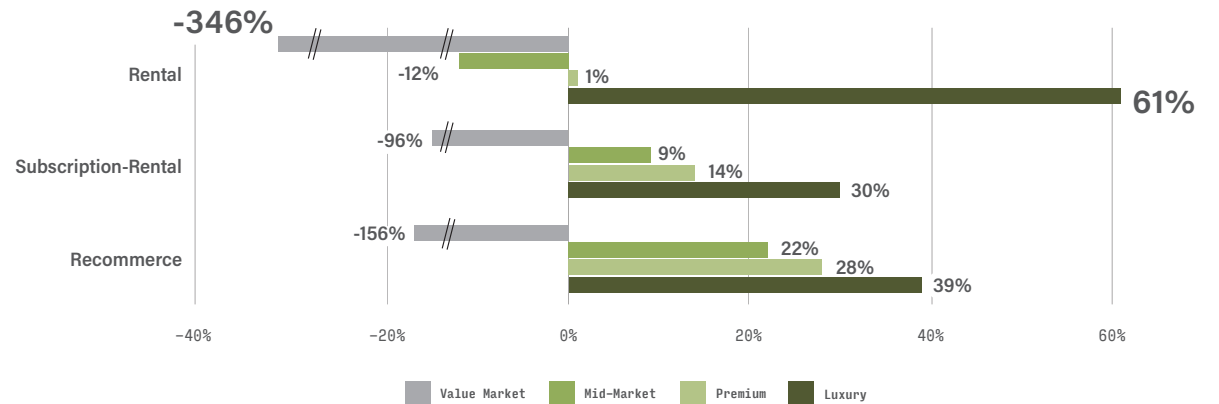
...if they could grow to cover
23%
of the global market by 2030²

By Global Fashion Agenda & McKinsey's estimate, fashion has the potential to go

80%
circular...

...if existing technologies for recycling man-made cellulose, cotton and polyester are fully scaled up³

Operating margin by circular business models⁴



(1) L. Coscieme et al.: A framework of circular business models for fashion and textiles: the role of business-model, technical, and social innovation (2021) (2) Ellen MacArthur Foundation: Circular business models Redefining growth for a thriving fashion industry (2021) (3) Global Fashion Agenda & McKinsey: Scaling Circularity (2021) (4) Fashion4Good: The Future of Circular Fashion: assessing the viability of circular business models (2021).

SOCIAL ISSUES ARE ABSENT FROM THE CIRCULAR FASHION DISCUSSION, EVEN IF WORKERS CAN BE EXPOSED TO NEW RISKS

While the environmental benefits of a fashion transition towards circularity are at the center of international debates, potential trade-offs between environmental gains and social risks is attracting less attention. It is acknowledged that the climate crisis already affects different people in different ways, with socially and economically marginalized groups disproportionately at risk. Pushing for environment-centered policies and business practices without proper considerations of social aspects could add to this circumstance.

New risks implied by the transition will mostly be sustained by people in developing countries. For instance, a shift to circular fashion consumption could lead to less production in general, which in turn could signify considerable job loss in countries whose economy is still dependent on low-skill manufacturing, such as Bangladesh. On the other hand, new jobs created by the transition (i.e., resale and rental service providers) will likely appear in countries with heavy fashion consumption, which are typically more developed. Furthermore, such risks could disproportionately affect women and minority groups, as they often lack the conditions or face unique barriers to respond to changes in job opportunities in transitioning economic structures¹.

At the same time, circular fashion brings about opportunities to improve the sector's impacts on society. By adding more value to the clothing produced, requiring more skilled labor for repair and reuse, and lowering the usage of toxic inputs like dyes and toxins, a transition to circular fashion could support better working conditions for garment workers. However, this move will call for new skill sets, production techniques, and possibly more time dedicated to each piece of clothing. This means that such opportunities can only be realized by granting garment workers access to trainings and possibilities for upskilling, which is currently a critical challenge in the sector¹. Furthermore, many opportunities brought about by circular models, like recycling, are frequently unofficial and of low quality. The ILO estimates that a vast majority of employees in the waste management and recycling sector are now working informally, subject to dangerous working conditions, social stigma, discrimination, and lack of access to social benefits².

4 BILLION

people live without the internet, the majority of which are women and in low-income countries: technology-enabled circular models may leave out such underprivileged groups¹

9 OUT OF 10

Gen Z consumers believe that companies should address not only environmental but also social issues, yet this is not yet happening¹

80%

of workers in the waste management and recycling sector are informally employed, face hazardous working conditions and discrimination²

(1) BSR: Taking a People-Centered Approach to a Circular Fashion Economy (2020) (2) ILO: Waste Pickers' Cooperatives And Social And Solidarity Economy Organizations (2019).

2.

NAVIGATING COMPLEXITIES: STUMBLING BLOCKS TO SYSTEMIC CHANGE

KEY MESSAGE

2.1

The Fashion industry is part of a vicious circle between generated and suffered environmental impacts, despite **reliable and consistent data to quantify them are still missing.**

KEY MESSAGE

2.2

Although attention on the topic sparked from social issues, **pressures are now mainly focused on environmental impacts**, often limited to climate change.

KEY MESSAGE

2.3

Being one of the industries with the longest value chains often relying on subcontractors, Fashion poses **huge challenges in data traceability and governance.**



KEY MESSAGE
2.1

THE FASHION INDUSTRY IS PART OF
A VICIOUS CIRCLE BETWEEN GENERATED
AND SUFFERED ENVIRONMENTAL IMPACTS,
DESPITE RELIABLE AND CONSISTENT DATA
TO QUANTIFY THEM ARE STILL MISSING

THE APPAREL INDUSTRY ACCOUNTS FOR 1.5–2% OF GLOBAL GDP, BUT ITS SOCIAL AND ENVIRONMENTAL IMPACTS ARE STILL UNCERTAIN

The fashion industry consumes numerous natural resources and has many environmental impacts that go beyond climate-altering gas emissions. Some prominent topics for the sector include greenhouse gas (GHG) emissions, freshwater consumption, freshwater pollution and chemical discharges, raw material deprivation, ecosystem and biodiversity conservation, and so on. Among these biodiversity has not been examined in depth for it concerns mainly agricultural activities which falls out of the scope of this study.

While there is an industry-wise consensus that fashion exerts significant impacts on the environment, there is little reliable data quantifying them. Estimates of the same problems exhibit significant variance, calculated with divergent scopes for a lack of standardized definition of the fashion sector and its value chain.

Many numbers are cited repeatedly by official sources such as international institutions and major news outlets. However, most of them can be traced back to dead links, estimates based on very specific assumptions that got lost over the years, or simply based on a «gut feeling» of an industry leader¹. For instance, UN agencies cite repeatedly that the fashion industry contributes to about 10% of global GHG emissions², but to our best efforts such number could not be traced back to its original data and methodology.

Environmental data throughout the fashion sector are inconsistent



4x

the difference between highest and lowest carbon emissions estimates of the fashion sector³

2–8.1%

OF GLOBAL TOTAL GHG EMISSIONS



2.7x

the difference between highest and lowest estimates on annual freshwater withdrawals in the fashion sector³

79–215

BILLION METRIC TONS



5.3x

the difference between highest and lowest estimates on the use of water for the production of a pair of jeans³

3,781–20,000

LITERS

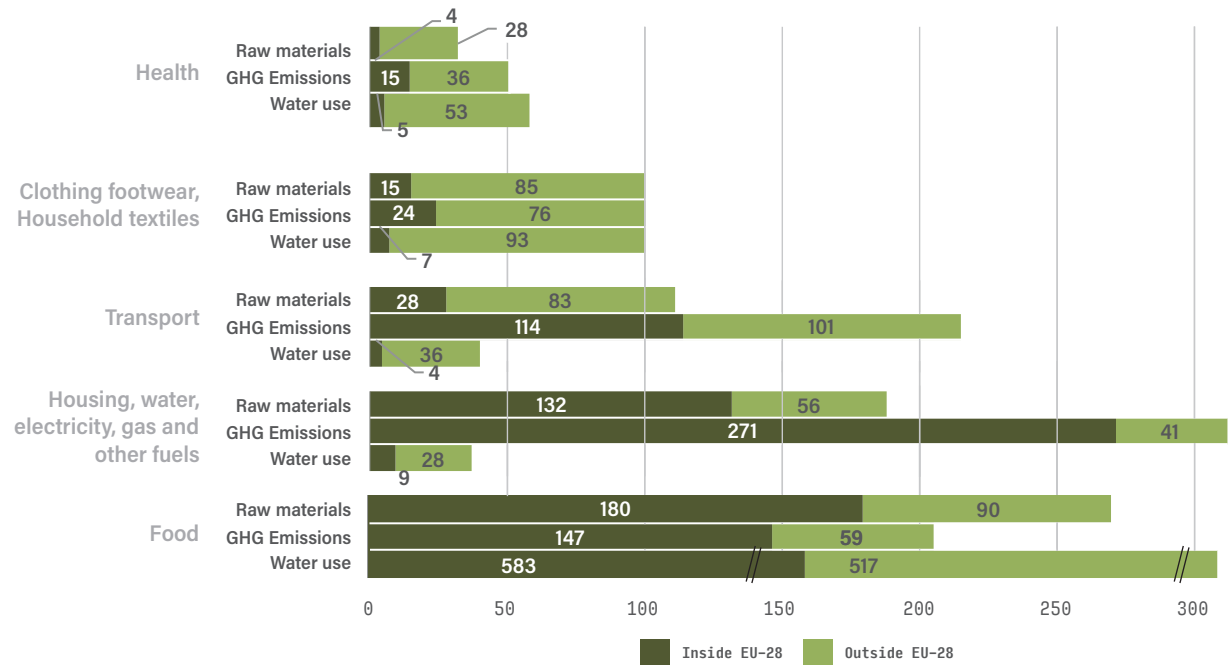
(1) A. Wicker: Fashion has a Fashion has a misinformation problem. That's bad for the environment (2020) (2) UNECE: UN Alliance aims to put fashion on path to sustainability (3) The European House – Ambrosetti Elaboration on various estimates from Quantis, UNEP, UNFCCC, Worldbank, World Resource Institute and Global Fashion Agenda, estimates on water usage for jeans production do not specify the industrial processes and techniques involved.

ESTIMATES ON EUROPEAN FASHION CONSUMPTION SHOW ENVIRONMENTAL IMPACTS ARE MOSTLY SUFFERED OUTSIDE THE EU

Adding to the lack of scientific research on environmental impacts of the sector is the fact that most negative externalities are felt elsewhere. For instance, estimates of textiles consumed in the EU show over 75% of GHG emissions taking place outside the EU, and this number for raw material extraction and water use amount to some stunning 85% and 93%.

In general, clothes, footwear and household textiles consumed by EU households have very significant environmental impacts. Compared to transports, for instance, textiles products consume about the same amount of primary raw materials and more than double the amount of water. Compared to health, a fundamental category for the basic needs of societies, fashion exerts double the amount of impacts in all categories.

Environmental impacts of five product categories consumed by EU households (index values with textile products equaling to 100)¹



(1) The European House – Ambrosetti elaboration on European Environmental Agency: Textiles and the environment in a circular economy (2019), water usage for food consumption is not to scale.

THE FASHION SECTOR IS GROWING BY AROUND 6% ANNUALLY¹, TOO MUCH OF WHICH STILL ENDS UP IN THE BINS

The fashion industry consumes a considerable amount of materials and natural resources, which makes each piece of our clothing precious and irreplaceable from the point of view of our planet; yet at each step the fashion value chain produces a significant amount of refuse, meaning that limited, non-renewable resources are going to waste.

Assembly & finishing

Approximately 15% of textiles intended for clothing ends up on the cutting room floor², whereas cutting rate for leather can range from 25%-60%³.

Distribution

Around 30% of all clothes made around the world are never sold⁴, the cost of this inventory distortion is estimated in \$210 billion⁵. Between 10,000 and 20,000 tonnes of textile products are destroyed every year only in France. Luxury brands are estimated to have end-of-season unsold inventory worth 10-to-13% of full-price sales⁶.

Use & End of life

Around 56 million tonnes of clothing are bought each year, and this is expected to rise to 93 million tonnes by 2030 and 160 million tonnes by 2050. The average consumer today buys 60% more clothes than they did in the year 2000⁷. The average piece of clothing is worn 36% fewer times now than it was 15 years ago. As many as 6 out of every 10 items of clothing end up as rubbish within 1 year after being made⁸. If the number of times a garment is worn were doubled on average, greenhouse gas emissions would be 44% lower⁹.

Consumption patterns have led to an increasing amount of waste, little of which is recycled

2x

growth of European textile waste over the last 20 years¹⁰

11kg

of textile waste is annually discarded by average EU consumers, 2/3 of which are synthetic fibres¹⁰

5%

of all landfill space in the US is occupied by textile waste¹¹

1/3

of textile waste in the EU is separately collected, 70% - 90% of which is reused or recycled, while the rest is destined to waste-to-energy plants and landfill¹²

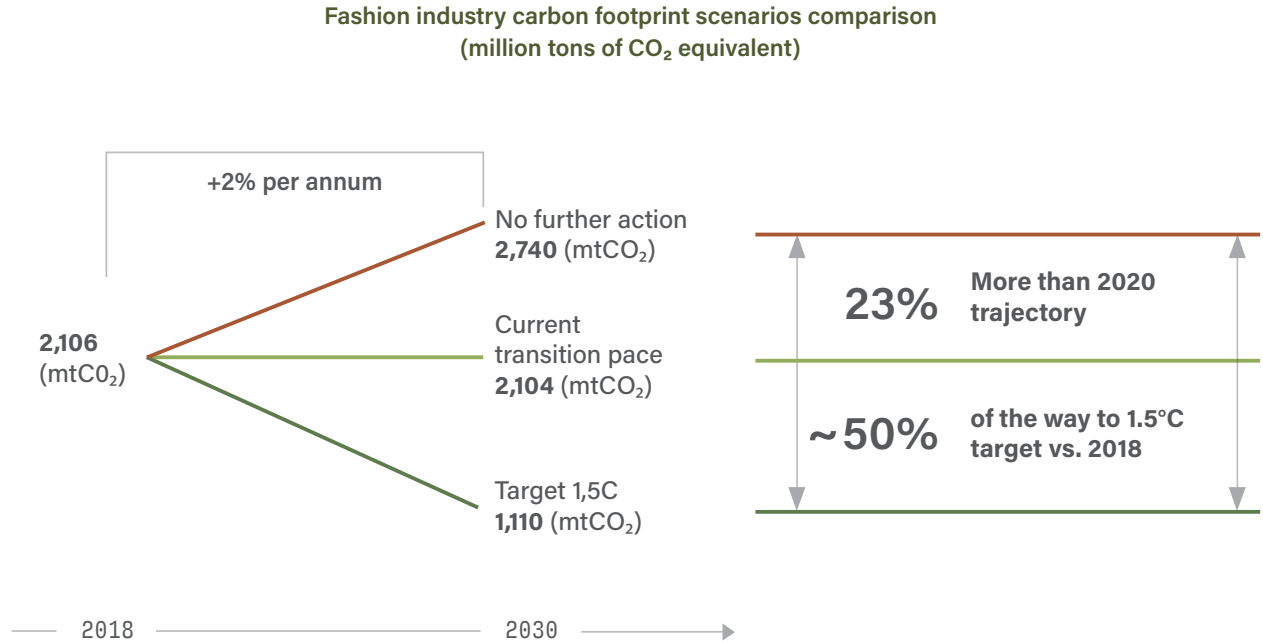
15%

of all post-consumer textile waste in the US each year is recycled, leaving 85% in landfills¹¹

(1) The European House – Ambrosetti elaboration on Statista (2021) (2) Timo Rissanen: 'From 15% to 0: Investigating the creation of fashion without the creation of fabric waste' (2005) (3) Centre Technique Cuir Chaussure Maroquinerie: Wastes Generated In The Leather Products Industry (2000) (4) Australian Circular Textile Association (ACTA) (5) IHL Group (6) BoF: Luxury Brands Burn Unsold Goods. What Should They Do Instead? (7) Good on You: Everything You Need to Know About Waste in the Fashion Industry (2022) (8) BoF: The State of Fashion (2022) (9) McKinsey: Refashioning clothing's environmental impact (2019) (10) Centre for the Promotion of Imports from developing countries (CBI): The European market potential for recycled fashion (2021) (11) EPA: Textiles: Material-Specific Data (2022) (12) European Environmental Agency: Plastic in textiles: towards a circular economy for synthetic textiles in Europe (2021).

WITHOUT FURTHER ACCELERATION, THE FASHION INDUSTRY WILL MISS ITS 1.5°C TARGET

Global production of apparel and footwear is projected to grow steadily, meaning that without further intervention, the overall GHG footprint is only set to increase. In 2020 McKinsey simulated that under the scenario of the current decarbonization initiatives in place, the fashion industry's carbon abatement is not catching up with the market growth, and overall emission will be capped at around 2.1 billion tonnes a year by 2030. This means that the industry would be missing its 1.5°C target by 50% and is in urgent need to intensify its abatement efforts¹.



(1) McKinsey: Fashion on climate (2020).

FROM FRESHWATER WITHDRAWAL TO DISCHARGES, FASHION EXERTS SIGNIFICANT PRESSURE ON OUR WATER SYSTEMS

Freshwater withdrawal

The fashion value chain includes some of the most water-intensive in the industrial world. Fiber production is undoubtedly one of them. Cotton, for instance, requires the most water out of any other crop and needs between 7,000 and 29,000 liters of water to produce just 1 kilogram of raw cotton¹. That means that it may take more freshwater to make a pair of jeans than to make a ton of cement². Furthermore, dyeing and finishing processes are estimated to consume 58.4 trillion liters of water, putting it at the 2nd place among most water-consuming steps in the value chain³. Although not always confirmed by other sources, textile dyeing has been estimated to be the 2nd largest polluter of water globally⁴; 17 to 20% of industrial water pollution is from textile dyeing and treatment⁵.

Freshwater pollution

Chemical discharges from the fashion value chain can have very long-lasting effects in the ecosystem we live in. For instance, crop production releases a significant amount of chemicals and nutrients into our water systems, which could lead to both the corruption of aquatic systems on-land and eutrophication of the oceans.

Despite being one of the most regulated industries, leather production and conservation has insignificant impacts in terms of chemical usage and discharges. The wastewater of the leather industry typically contains Chromium and Nitrogen which are some of the most important concerns regarding environmental pollution to water sources⁹. While overall water pollution attributed to the leather industry is unclear due to a data gap, it is estimated that 1 metric ton of raw material is converted into only 200 kg of usable leather product, with the rest of it ending up as solid and liquid waste including 50,000 kg of wastewater effluents comprising 5 kg of chromium⁹.

215,000

BILLION LITERS

of water per year is consumed by the fashion industry³, almost equivalent to 10 Como Lakes.

400

BILLION LITERS

of water is consumed by the leather industry annually⁶, enough for 7 million EU citizens to consume for a year⁷.

10,000

LITERS

of water is used to make a typical pair of jeans⁸.

16%

OF ALL INSECTICIDES used worldwide are used by the cotton crop, some of which can end up in the fatty tissue of animals and humans and stay there for decades¹⁰.

43

MILLION TONS

of chemicals are used in textile production every year¹¹.

1,000

YEARS

time needed for the degradation of some Per- and Polyfluoroalkyl Substances (PFAS), often used in leather tanning & finishing activities¹².

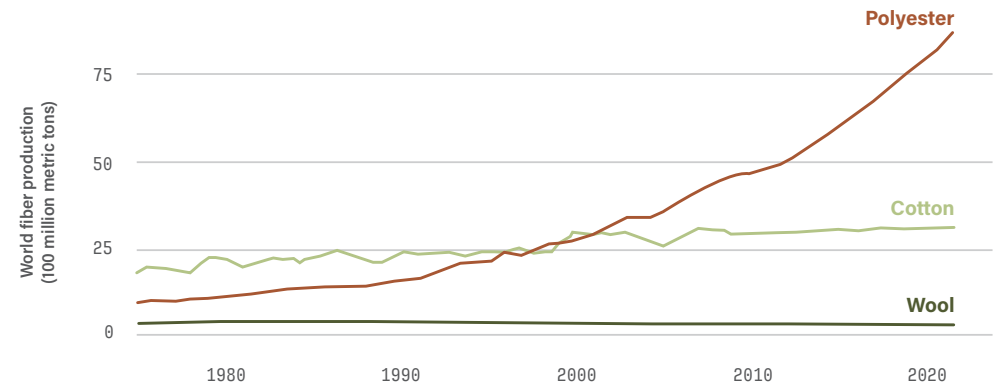
(1) WWF: Living Waters: Conserving the Source of Life (2) Tree Hugger: How Many Gallons of Water Does It Take to Make... (2018) (3) Quantis: Measuring Fashion: Environmental Impact of the Global Apparel and Footwear Industries Study (2018) (4) UNEP: Putting the Brakes on Fast Fashion (2018) (5) Ellen MacArthur Foundation: A new textiles economy: Redesigning fashion's future (2017) (6) Leather International: Water, waste and a wish for the future (2021) (7) The European House - Ambrosetti elaboration on EEA estimates on average EU citizen's water usage (8) UN: Act Now: Fashion Challenge (2019) (9) N.M. Sivariuum et al.: Toxic Waste from Leather Industries (2019) (10) Project CECE: Is the fashion industry the second most polluting industry in the world? (2019) (11) Green America: Toxic Textiles (2019) (12) Euronews: 'Forever chemicals': What are PFAS and can we solve this persistent pollution problem? (2022).

SYNTHETICS FIBRES DISPERSED IN THE OCEAN MAKE THEIR WAY BACK TO US THROUGH BIOACCUMULATION

The global consumption of synthetic fibres increased from a few thousand tonnes in 1940 to more than 60 million tonnes in 2018, and it continues to rise. Since the late 1990s, polyester has surpassed cotton as the fibre most commonly used in textiles¹. As of today, plastic is the most important component in outwear¹: about 60% of material in our clothing is plastic, which includes polyester, acrylic and nylon textiles².

Microplastic pollution caused by washing processes of synthetic textiles has recently been assessed as the main source of primary microplastics in the oceans³. Micro-fibres released during washing range from 124 to 308 mg per kilogram of washed fabric, depending from the type of washed garment, that corresponds to a number of micro-fibres ranging from 640,000 to 1,500,000. As a result, the hundreds of thousands of fibres that make up our clothing have led to an estimated 1.4 million trillion plastic fibres in the ocean², which could have an adverse impacts on the health of people who consume seafood, as micro-fibres and other microplastics make their way up the food chain through bioaccumulation. Furthermore, the effects of microplastic ingestion on on the marine life are catastrophic: they have caused starvation, endocrine disruption, stunted growth in some species and broken down digestive systems².

World fiber productions (100 million metric tons)¹









(1)Maxine Bedat: Unraveled, based on data from Tecnon Orbichem (2022) (2) UNEP: Fashion's tiny hidden secret (2019) (3) N.M. Sivariuum et al.: Toxic Waste form Leather Industries (2019).

THE FASHION INDUSTRY IS DEPENDENT ON NATURAL RESOURCES AND WILL BE SUSCEPTIBLE TO CLIMATE RISKS

The environmental impacts of fashion industry are not merely a problem of sustainability, but rather at the root of biosphere changes that very much concern the industry's business continuity and bottom lines. Global warming, reaching 1.5°C in the near-term, would cause unavoidable increases in multiple climate hazards and present multiple risks to ecosystems and humans. Changes in climate factors such as warmer air temperatures and extreme fluctuations in precipitation as a result of rising carbon dioxide concentration may significantly impact plant growth and crop productivity. A mere 3% of the Earth's water resources are of freshwater. As the world's population grows and freshwater resources continue to decline, an ever-increasing number of regions are regularly faced with the challenges of water scarcity. All these factors affect the agricultural systems upon which the fashion industry is highly dependent.

Climate change will specifically affect luxury fashion because the industry is particularly dependent on raw materials, thus already feeling the impact of changes in climate and environment in terms of business disruptions and increasing costs. Current climate risks concern six key raw materials - beef and calf leather, sheep and lamb leather, silk, vicuña, cashmere and (extra fine) cotton. The specific risks for each raw material are, for example, reduced water availability and rising temperatures for cotton; drought and water availability for feedstuffs and warming climates for beef leather and sheepskin and lambskin; moisture fluctuations for silk; drought for vicuña-whose hair is considered by many to be the world's most expensive animal fiber-and degradation, desertification, and restricted geographic range for cashmere¹.

Raw materials that are susceptible to climate risks

		RISK EXPOSURE
	COTTON	Reduced yield due to temperature rise and reduced water availability.
	BEEF LEATHER	Reduced cattle hide due to extreme and prolonged droughts.
	SHEEPSKIN & LAMBSKIN	Pests and diseases in new regions due to warmer climates.
	SILK	Reduced yield and jeopardized outdoor production due to temperature rise and humidity fluctuation.
	VICUÑA	Restricted geographical range and degradation of Vicuñas' habitat.
	CASHMERE	Restricted geographical range and degradation of cashmere goats' and pashmina goats' habitat.

(1) BSR Kering; Climate Change: Implications and Strategies for the Luxury Fashion Sector (2015).

KEY MESSAGE

2.2

ALTHOUGH ATTENTION ON THE TOPIC SPARKED
FROM SOCIAL ISSUES, PRESSURES ARE NOW MAINLY
FOCUSED ON ENVIRONMENTAL IMPACTS,
OFTEN LIMITED TO CLIMATE CHANGE



FASHION AFFECTS 60–75 MILLION WORKERS WORLDWIDE, MOST OF WHICH IN DEVELOPING OR TRANSITIONING COUNTRIES

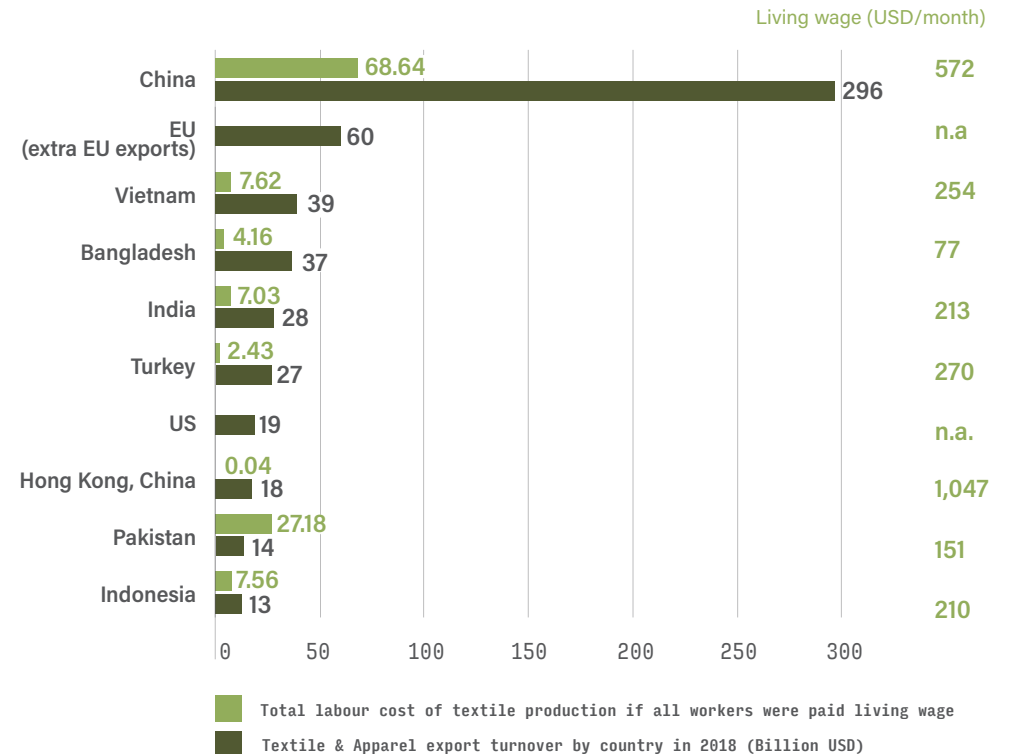
An estimated 75 million workers are employed in the global fashion industry¹, equivalent to over a third of all European workers², most of which find themselves working in sub-optimal conditions, long hours and for poor wages.

Most of textiles production are located in low-income countries. Among the top 10 global textile and garment exporters, there are 4 developed countries, accounting for only 22% of the total exported by these 10 countries. China on the other hand accounts for over half of the textile exports in the world³.

Clean Clothes Campaign conducted research showing that 93% of the brands surveyed do not pay garment workers a living wage⁴, interpreted as a wage that is sufficient to afford a decent standard of living for a worker and their family⁵. In many countries the national minimum wage does not guarantee a decent standard of living. In Asia, the minimum wage can vary from 21% (Bangladesh) to around 46% (China) of a living wage. In European production countries there can be even greater gaps, from 10% (Georgia) to 40% in Hungary⁵.

The pandemic has certainly made the already precarious situation for textile workers worse. Research by the Worker Rights Consortium (WRC) shows that the average wages of garment workers have decreased in the last 12 months by more than a fifth (21%) from an average of \$187 per month to \$147⁶.

Top ten textile production countries by export volume and the corresponding total labour cost assuming that all textile workers are paid living wage (million USD)⁷



(1) UNECE: UN Alliance aims to put fashion on path to sustainability (2018) (2) The European House – Ambrosetti elaboration on Eurostat (2022) (3) The European House – Ambrosetti elaboration on WorldBank, World Trade Organization (2022) (4) Fashion Checker: Are the people who make your clothes paid enough to live? (2022) (5) UN Global Compact: Ensuring a Living Wage is an Essential Aspect of Decent Work (2022) (6) The Business of Fashion: Garment worker wage theft widespread in wake of pandemic (2021) (7) The European House – Ambrosetti elaboration on TexPro and Global Living Wage Coalition (2022).

LOW SKILLED WORKERS FACE NUMEROUS LABOUR RIGHTS VIOLATIONS

Gender inequality

The fashion industry is highly dependent on women workers. Of the 75 million people employed in the garment sector, 80% of these workers are women between the ages of 18 and 35. In Asia-Pacific, gender pay gap remains a common phenomenon in most countries, with Pakistan ranked 1st with almost 50% pay difference even adjusted for all independent variables such as age or education². Among developed countries, Italy, a major textile production hub in the EU, remains in the bottom 4 countries at the European level in terms of gender gap, even after the gender pay gap in Italy's apparel and textile sector decreased from 11.5% in 2018 to 3.3% in 2019³.

Forced labour & Child labour

Due to the opacity of the phenomenon, it is hard to quantify forced labor in fashion industry. However, there is consensus that forced labor is common in many major apparel supplier countries. For instance, the region of Xinjiang, China, a major producer of cotton, has had continuous allegation of forced labor in the past few years⁴. Child labour is a particular problem for fashion because much of the supply chain requires

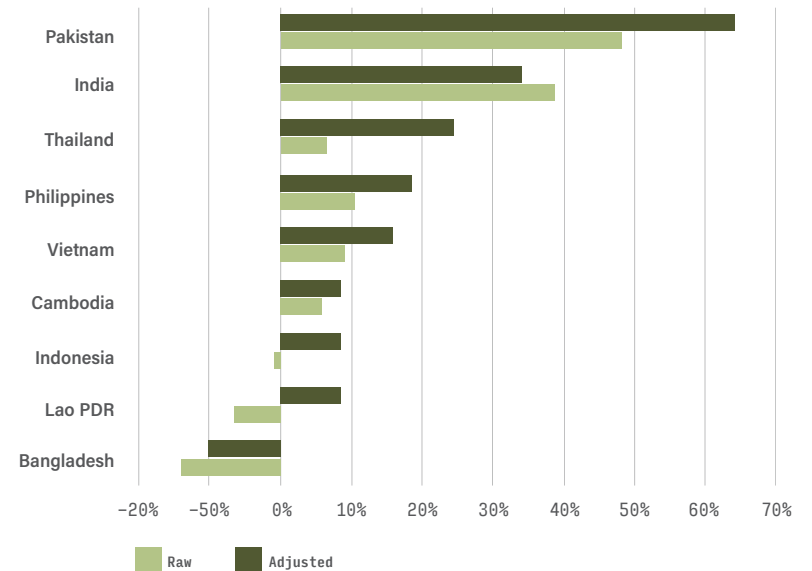
low-skilled labour and some activities are even more suitable for children than adults. In cotton picking, for example, employers prefer to hire children for their small fingers, which do not damage the crop⁵. Children work at all stages of the supply chain in the fashion industry: from seed cotton production in Benin, harvesting in Uzbekistan, spinning in India, to the various stages of garment assembly in factories throughout Bangladesh⁶.

Exposure to chemicals

While leather goods and footwear are often sold by Europe and US based brands, tannery work is mostly outsourced to newly industrialized countries (NICs) where attention into occupational health hazards is limited⁷.

Some commonly used chemicals have been associated with claims about health risks. For instance, formaldehyde, sometimes used in fabrics to prevent wrinkling, in large quantity, can cause exacerbation of asthma or allergic contact dermatitis⁸. Azo dyes, found in 60-80% of all colorants, can come off fabrics and break down to release aromatic amines, some of which have been associated with cancer⁹.

Male female wage gap, raw and adjusted (%) in garment, textiles and footwear in Asia Pacific²



12%

of Indonesian leather workers reported a current occupational skin diseases (OSD) and 9% reported a history of OSD1

13.38x

are workers involved in wet finishing and dry finishing more likely to have breathing difficulties¹⁰

(1) ILO: Fewer women than men will regain employment during the COVID-19 recovery says ILO (2021) (2) The European House – Ambrosetti elaboration of ILO: Assessing the gender pay gap in Asia's garment sector (2016), raw gap indicates the difference in estimated natural log of hourly earnings of employees (aged 15+) while controlling for only sex, and adjusted gap controls for all independent variables including sex, age, marital status, education, experience, sub-national area, economic sector and occupation. (3) FairWear Foundation: Italy Risk Assessment (2020) (4) OHCHR Assessment of human rights concerns in the Xinjiang Uyghur Autonomous Region, People's Republic of China (2022) (5) International Labour Organisation: Child Labour (2022) (6) UNICEF: Child labour in the fashion supply chain: Where, why and what can be done (2022) (7) S. Febrina et al.: Inventory of the chemicals and the exposure of the workers' skin to these at two leather factories in Indonesia (2012) (8) McGwin et al.: Formaldehyde Exposure and Asthma in Children: A Systematic Review (2010) (9) Allergy Standards: Chemicals in Textiles and the Health Implications (10) G. Rabbani, et al.: Factors Associated With Health Complaints Among Leather Tannery Workers in Bangladesh (2020), the steps in the production of leather between curing and tanning are collectively referred to as Beamhouse operations. This process includes e.g. soaking, liming, deliming, bating, a number of mechanical operations and pickling.



KEY MESSAGE

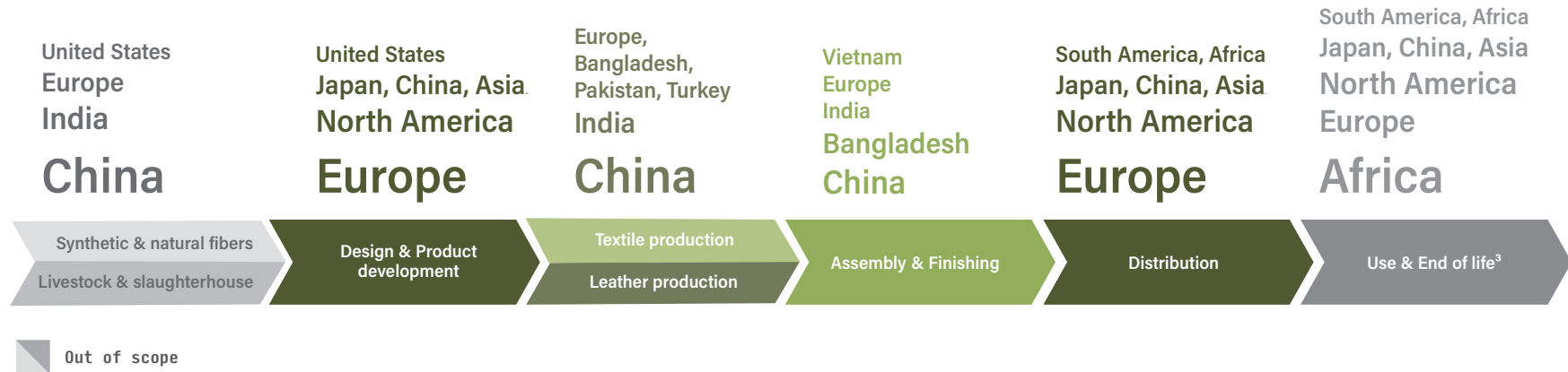
2.3

BEING ONE OF THE INDUSTRIES WITH THE LONGEST
VALUE CHAINS OFTEN RELYING ON SUBCONTRACTORS,
FASHION POSES HUGE CHALLENGES TO DATA
TRACEABILITY AND GOVERNANCE

THE FASHION SUPPLY CHAIN IS NOTORIOUSLY COMPLEX, WITH LOW-VALUE-ADDED STAGES CONCENTRATED IN DEVELOPING COUNTRIES

Fashion has one of the most complex, long and delocalized value chains among consumer goods industries; a fashion item could take over 20 steps by different businesses located in different regions of the world¹. Although the value chain is truly global, most of the early steps occur in developing countries where environmental and social regulations are lagging behind: the extraction of raw materials and the production part of the textile value chain are heavily oriented toward Asia and transition economies.

In particular, China has a high share of the fiber (57%) and yarn (64%) production stages of the value chain, followed by India². Only for distribution and end-of-life there is a wide global diversity, with Europe, North America and Africa as the main players. On the other hand, the design and product development impacts are almost all in highly developed countries (where most brands are located).



(1) World Resource Institute: Roadmap To Net Zero: Delivering Science based Targets In The Apparel Sector (2021) (2) United Nations Environment Programme. Sustainability and Circularity in the Textile Value Chain: Global Stocktaking (2020) (3) Greenpeace: Clothing sent to East Africa is mostly waste (2022).

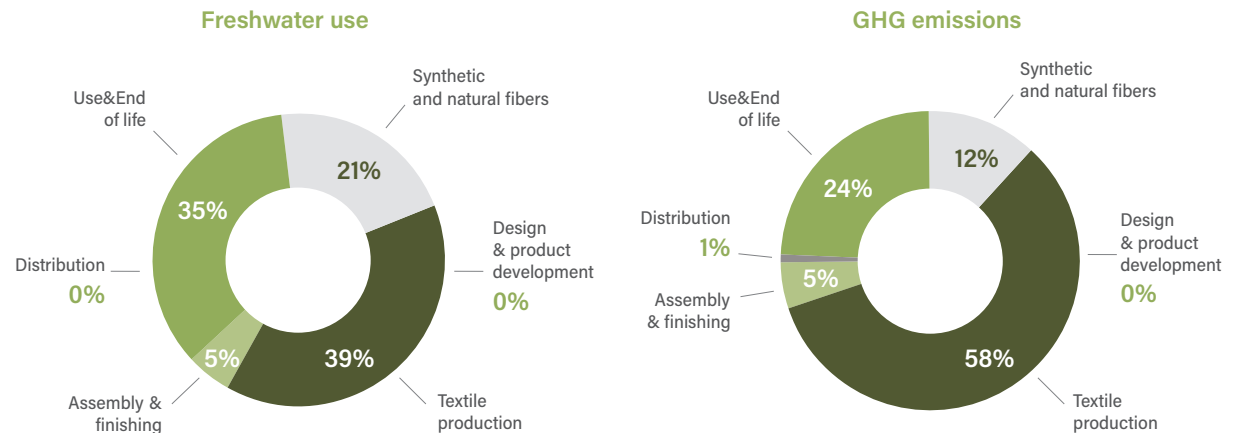
THE TEXTILE PRODUCTION PHASE IN THE SUPPLY CHAIN IS RESPONSIBLE FOR THE MAJORITY OF ENVIRONMENTAL IMPACTS

96% of the textile sector's carbon footprint is classified as Scope 3 emissions and the global garment industry consumes about 215 trillion litres of water per year¹. In addition, environmental and social impacts are mainly concentrated at the early stages of value chains, which means that significant interventions can only take place in the context of supply chain management.

Analysing the various environmental and social emissions in more detail, it emerges that most greenhouse gas emissions (58%) occur in the textile production phase, while 24% occur in the use and end-of-life phase. The design and distribution phases have the least impact in terms of GHG emissions, 0% and 1% respectively¹.

In terms of freshwater consumption, the impact that water use has on water availability for human and industrial purposes and ecosystem services varies from country to country, as each geographic region experiences varying degrees of water scarcity, depending on the availability of fresh water and the number of competing users. When weighted by national freshwater use, production and use and end-of-life make the largest contribution to freshwater use, 39% and 35% respectively. The raw material phase is not far behind, with 21% of the use.

Environmental impact contribution of fashion value chain steps (%)¹



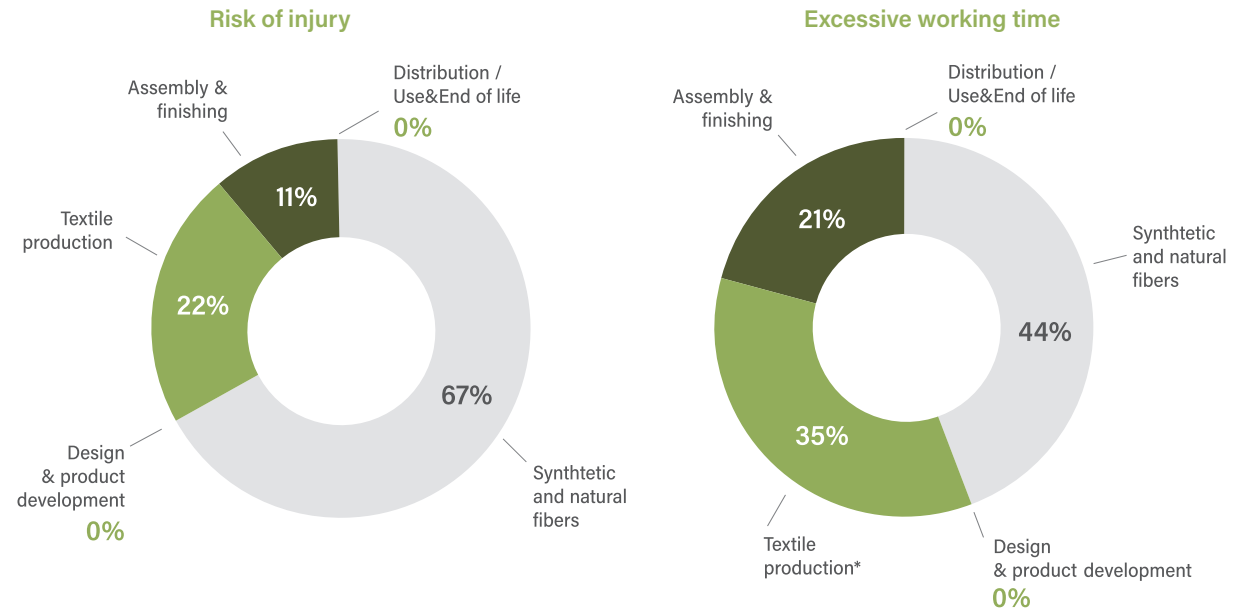
(1) The European House - Ambrosetti elaboration on United Nations Environment Programme. Sustainability and Circularity in the Textile Value Chain: Global Stocktaking (2020). The data only refer to the textile sector, in absence of leather related data.

SOCIAL IMPACT IS MAINLY FOCUSED IN THE EARLY STAGES OF THE TEXTILE VALUE CHAIN

Along the value chain there are not only environmental impacts, but also social risks. As would be expected from the geographical distribution of the textile value chain, China and India are the countries with the highest social risks due to the production of fibres, yarns and fabrics, while Bangladesh presents equally significant risks in the later stages of textile production (assembly)¹. High economic value added per stage only occurs towards the end of the textile value chain, while low-cost and low-skill activities occur at earlier stages of the value chain.

The social life cycle assessment (SLCA) identifies synthetic and natural fibers as the stage of the textile value chain with the highest number of excessive labour hours (44%) and risk of injury (67%)¹. Even during the textile production phase there is a high percentage, 22% for the risk of insults and 35% for excessive working hours¹.

Social impact contribution of fashion value chain steps (%)¹



(1) The European House - Ambrosetti elaboration on United Nations Environment Programme. Sustainability and Circularity in the Textile Value Chain: Global Stocktaking (2020).

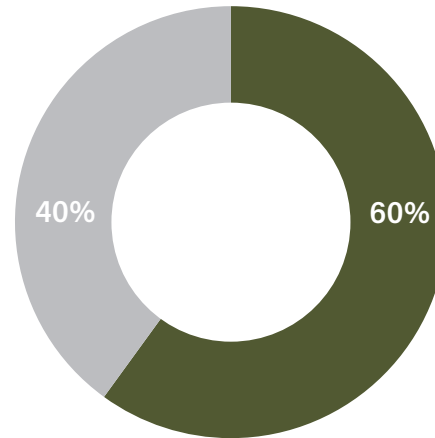
*The data only refer to the textile sector, in absence of leather ones.

MAIN ITALIAN AND FRENCH LUXURY BRANDS MOSTLY SOURCE LOCAL, WHILE FAST FASHION SOURCES ALMOST ENTIRELY OUTSIDE EUROPE

The top 15 Italian and French luxury brands were selected to analyse the percentage of the supply chain located in Europe. From the information available on the sustainability reports they have published and from other publicly available data, it emerges that 9 out of 15 luxury brands have about 90% of their production in Europe (Italy and France); among these, the lowest percentage is 42% and the highest reaches 100%; 6 out of 15 brands do not make any public statements¹.

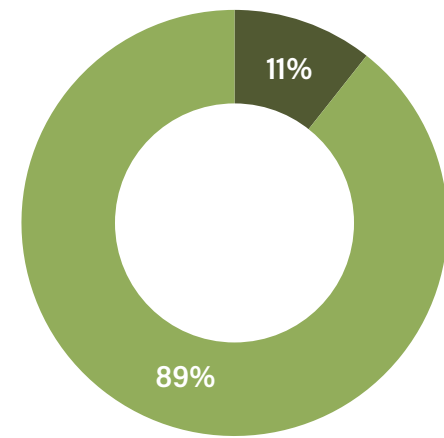
A similar analysis was made with the top 9 fast fashion brands to compare them with luxury brands. The mapping shows that fast fashion brands source almost entirely outside Europe, mainly in China, Bangladesh, Turkey, India and Brazil¹.

Top 15 Italian and French luxury disclosure on supply chain location¹



Majority of production in the EU (>88% of production)
Not publicly disclosed

Supply chain location of top 7 fast fashion brands by revenues¹



Production in the EU
Production in non-EU countries

(1) The European House – Ambrosetti elaboration on latest available documentation from brands (i.e. Sustainability Reports, Annual Reports, Balance sheets – 2020-2021).

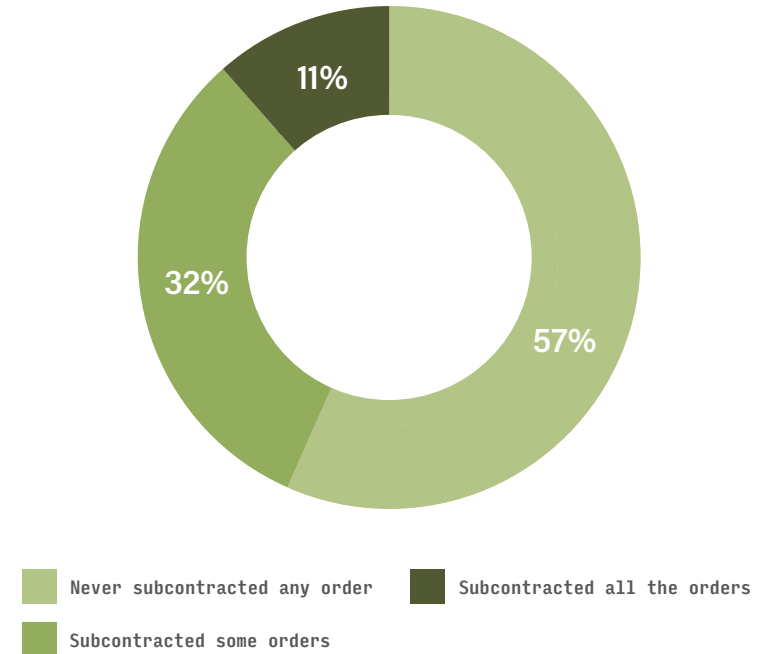
UNAUTHORIZED SUBCONTRACTING CAUSES FURTHER LACK OF TRACEABILITY

In addition to the difficulty of managing global suppliers, there remains a risk that is beyond the control of brands: as brands struggle to take inventory of their second and third tier suppliers, the phenomenon of unauthorised subcontracting continues to occur.

The use of an unknown factory means that brands no longer have control over the conditions there and the quality of the product being made there, with the risk of serious reputational damage¹. The use of unapproved subcontractors emerged after the collapse of Rana Plaza in Bangladesh, which housed many small, unregulated clothing shops. In this and similar incidents, investigators found garments from major fashion and retail companies in the ruins - garments that, according to the brands, were not authorised to be manufactured there.

The scale of the phenomenon is hard to define, due to the opaque nature of the maneuver, however a 2021 scholarly research found more than one-third of the 32,000 orders - placed by 30 brands with 226 garment factories - involved an unauthorized supplier².

Unauthorized subcontracting in Apparel supply chains²



(1) McKinsey: State of Fashion (2019) (2) The European House – Ambrosetti elaboration of F. Caro, et al.: Can Brands Claim Ignorance? Unauthorized Subcontracting in Apparel Supply Chains (2021).

3.

SUSTAINABILITY TRENDSETTERS: PRESSURES AND EXPECTATION FROM STAKEHOLDERS

KEY MESSAGE

3.1

Institutions, markets and society are globally increasing pressure towards a sustainable transition. While international institutional bodies are acting to be the main drivers of change, the EU is leading the way leveraging finance as an ally to nurture the transition.

KEY MESSAGE

3.2

The European Green Deal **regulation aims at overcoming greenwashing also through new standardized measurement tools** focused on processes and products which, by assigning new responsibilities to larger companies, push them to act as drivers for the transition of the entire value chain. The effectiveness of such devices relies on the ability of the EU to define appropriate criteria and thresholds.

KEY MESSAGE

3.3

Certifications, ratings and clear targets stand to be key market leverages to exert pressure for sustainable performances. However, they **still seem not able to live up to their promises of transparency and standardization**. In this context, while people's awareness appears to grow, consumers are not willing to pay a premium price for sustainability.

KEY MESSAGE

3.1

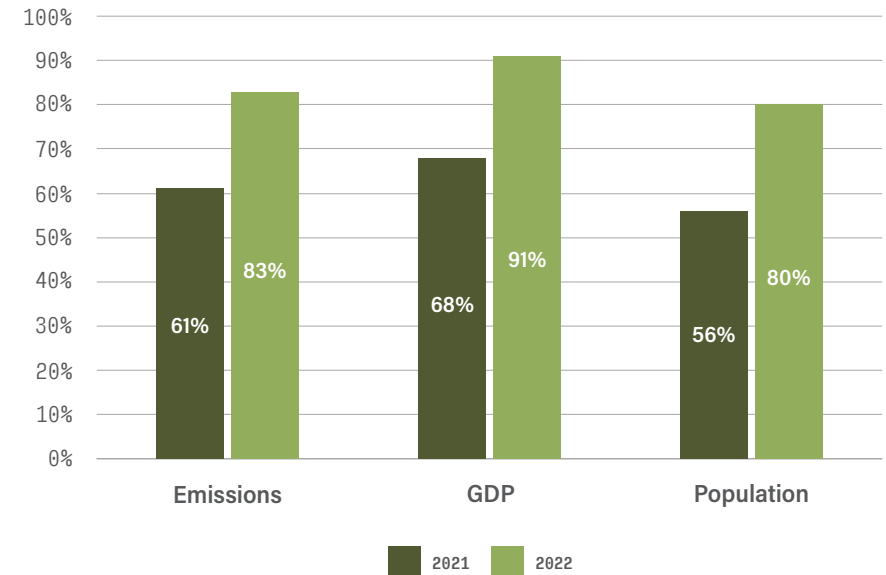
INSTITUTIONS, MARKETS AND SOCIETY ARE GLOBALLY INCREASING PRESSURE TOWARDS A SUSTAINABLE TRANSITION. WHILE INTERNATIONAL INSTITUTIONAL BODIES ARE ACTING TO BE THE MAIN DRIVERS OF CHANGE, THE EU IS LEADING THE WAY LEVERAGING FINANCE AS AN ALLY TO NURTURE THE TRANSITION

RISING GLOBAL AMBITIONS FOR A JUST TRANSITION COME WITH TARGETS AND REGULATORY PRESSURE

In November 2021, following the 26th Conference Of the Parties of the UNFCCC (COP 26), the Glasgow Climate Pact was adopted by 197 parties, reaffirming the consensus reached for the first time in 2015 in the form of a binding international treaty on climate change.

The goal to limit global warming to 1.5°C compared to pre-industrial levels set a clear deadline for climate actions around the globe and created a momentum in the policy agendas everywhere. Currently, 136 out of 198 countries globally are covered by net zero national targets¹; to fulfill these nation-wide ambitions, further regulatory actions can be expected.

Global Net Zero country level targets Coverage¹



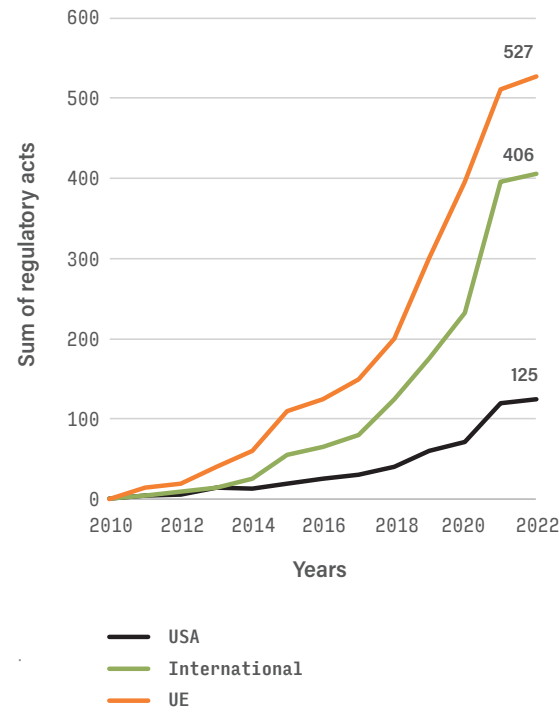
(1) Net Zero Tracker (2022). Data refer to percentage of emissions. GDP and population corresponding to countries that have in place net zero targets. The GDP is calculated as Purchasing Power Parity (PPP).

THOUGH IT'S NOT ALONE, EU IS MOVING FASTER THAN OTHER COUNTRIES. FINANCE HAS BEEN APPOINTED AS A KEY DRIVER FOR THE TRANSITION

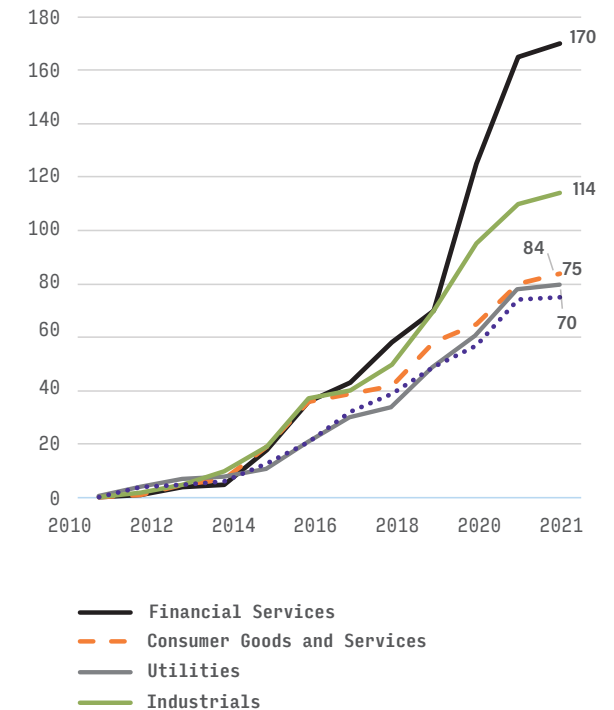
Regulatory pressures have been increasing worldwide, with Europe leading in terms of volume of regulatory acts. By becoming the first continent to be climate-neutral by 2050, the European Union is determined to establish itself as a pioneer in the sustainable transition. In 2019, with the announcement of a European Green Deal – a reform and investment package worth more than €1 trillion aimed at creating a contemporary, resource-efficient economy by 2030 – the spike in regulations relating to climate change had a significant explosion.

Sector-wise, since 2015, with the Paris Agreement, the financial sector has been entrusted with the role of game changer. 2018 represented a turning point and determined the finance primacy as a lever to tackle climate change following the publication of Task Force on Climate-Related Financial Disclosures to guide reporting on environmental impacts of businesses and the presentation of the European Sustainable Finance Action Plan – designed to reorient capital flows towards sustainable investment, manage financial risks stemming from climate change and foster transparency and long-termism in financial activities.

Increasing regulatory activity on climate change on a geographic level¹



Increasing regulatory activity on climate change by sector¹



(1) The European House – Ambrosetti elaboration on Datamaran (2022).

INSTITUTIONS AROUND THE WORLD PUSH FOR A JUST TRANSITION IN THE FASHION SECTOR

The fashion industry is no exception to the rising regulatory trend worldwide with over 130 international and national regulations in force as of 2021, mapped by the United Nations Economic Commission for Europe (UNECE) in an ongoing effort to identify all the policies and legislation concerning transparency and traceability for sustainable value chains in the Garment and Footwear sector¹. Among these there are some prominent, well-established and widely adopted policy guidelines that have been adapted to the Garment and footwear sector, signaling increasing attention paid to the opacity of the fashion industry from policymakers. For instance, in 2017, the OECD adopted its Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, in support of the widely adopted Guidelines of for Multinational Enterprise.



THE EUROPEAN PARLIAMENT PASSED FIT FOR 55

Fit for 55 policy package, which sets an interim emissions reduction target of -55% by 2030, has been passed in June 2022². Adopted proposals such as New Carbon Border Adjustment Mechanism will have significant impact on consumer goods that rely on trade flows.



OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

In support of the Guidelines for Multinational Enterprise, the OECD adopted its Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector in 2017⁴.



NEW YORK'S FASHION SUSTAINABILITY AND SOCIAL ACCOUNTABILITY ACT

New York's latest Fashion Sustainability and Social Accountability Act, for instance, would obligate Social and Environmental Due Diligence Disclosure to apparel and footwear companies with more than \$100 million in revenue³.



G20 RESOURCE ROADMAP

In 2019 G20 adopted the Roadmap to reduce the environmental and social impact, among other things, of the production, use and disposal of plastics, textiles, and construction materials through a circular approach⁵.

(1) UNECE: Report – Enhancing Sustainability and Circularity of Value Chains in the Garment and Footwear Sector: Policy Developments on Traceability and Transparency (2021) (2) European Commission (2022) (3) GFA: Policy Initiatives for Respectful and Secure Work Environments (2021) (4) OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector (2017); (5) G20 Resource Roadmap (2019).

KEY MESSAGE

3.2

THE EUROPEAN GREEN DEAL REGULATION AIMS AT OVERCOMING GREENWASHING ALSO THROUGH NEW STANDARDIZED MEASUREMENT TOOLS FOCUSED ON PROCESSES AND PRODUCTS WHICH, BY ASSIGNING NEW RESPONSIBILITIES TO LARGER COMPANIES, PUSH THEM TO ACT AS DRIVERS FOR THE TRANSITION OF THE ENTIRE VALUE CHAIN. THE EFFECTIVENESS OF SUCH DEVICES RELIES ON THE ABILITY OF THE EU TO DEFINE APPROPRIATE CRITERIA AND THRESHOLDS

EU GREEN DEAL AND ITS NEW STRATEGY FOR SUSTAINABLE TEXTILES TURNS THE SPOTLIGHT ON FOR FASHION INDUSTRY¹

3 years after the Green Deal was presented, the textile sector is coming into the European spotlight thanks to the recent proposal of EU Strategy for Sustainable and Circular Textiles.

Designed to maximize synergies with the current Circular Economy Action Plan and with the forthcoming European sustainability regulations (CSRD, CSDD and EU Taxonomy), the Strategy identifies 24 key actions to be implemented by 2027 to ensure that products sold in Europe by 2030 will be long-lasting, recyclable, non-hazardous and free of adverse ESG impacts.

To devise a future scenario for businesses operating in the fashion value chain, future legislation's impacts have been forecasted according to whether they depend on mandatory or voluntary requirements and whether the said requirements will mainly influence the companies' disclosure procedures or their operational performances.

Specifically, impacts that depend on regulations aimed at transparency have been categorized as "disclosure", while impacts that depend on regulations focused on results and based on performance criteria and thresholds have been categorized as "performance".



What's next? Measurement harmonization and standardization: EU 2027 expected textile scenario between mandatory requirements and unambiguous performance measurement criteria

	DISCLOSURE	PERFORMANCE
MANDATORY	<p>Companies will be asked to report on:</p> <ul style="list-style-type: none"> ▪ Corporate ESG performances through a standardized systems of KPIs and requirements¹. ▪ % of sustainable net turnover, capex and opex according to standardized criteria and technical thresholds². ▪ Governance model and procedures to mitigate impacts on environment and human rights³. ▪ Products sustainability and circularity parameter through labels and a Digital Product Passport⁵. 	<p>Companies will be required to:</p> <ul style="list-style-type: none"> ▪ Cease the practice of destroying unsold textiles⁴. ▪ Meet product eco-design requirements⁵. ▪ Implement circularity principles in design and pay additional fees for the management of waste⁷. ▪ Minimize hazardous chemicals in products⁸. ▪ Access Best Available Techniques for Textile Industry⁸.
VOLUNTARY	<p>Companies will be entitled to:</p> <ul style="list-style-type: none"> ▪ Use green claims on recycled materials⁶. ▪ Substantiate their environmental claims using a uniform environmental footprint measurement system to improve data comparability⁶. ▪ Ecolabel their products to make easily recognizable eco-friendly textiles⁶. 	<p>Companies will be enabled to:</p> <ul style="list-style-type: none"> ▪ Adopt a uniform guideline for products' LifeCycle Assessment⁷. ▪ Measure the eco-friendliness of their textile products through specific criteria⁷.

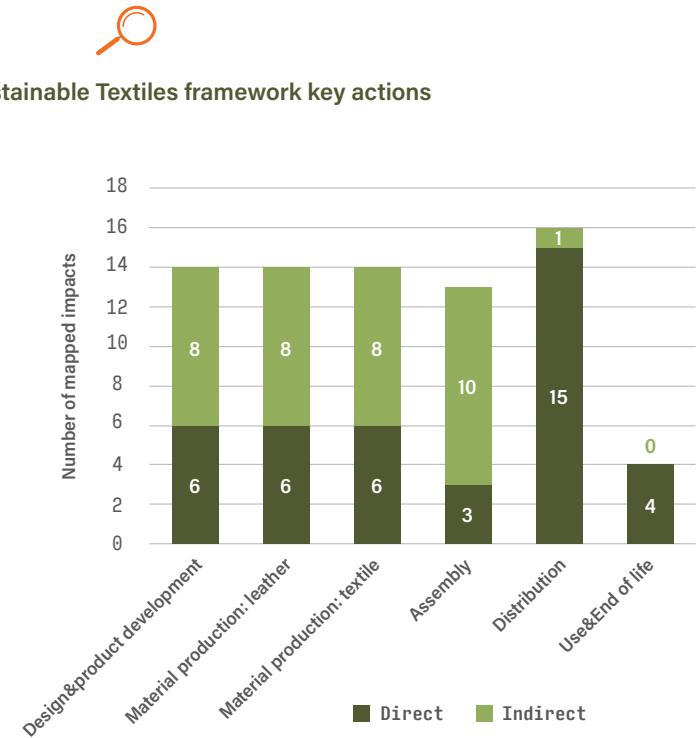
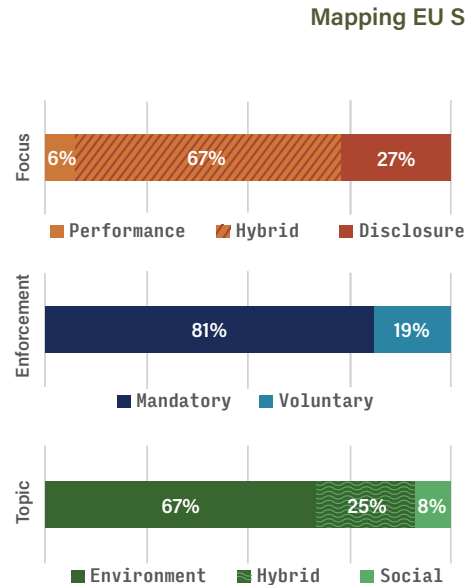
The European House-Ambrosetti elaboration on European Commission's (1) Corporate Sustainability Reporting Directive (2) Taxonomy for Sustainable Finance (3) Corporate Sustainability Due Diligence Directive (4) Ecodesign for Sustainable Products Regulation (5) Substantiating green claims (6) Product Environmental Footprint Method (7) Empowering consumers in green transition (8) Best Available Techniques for Textile Industry.

WHILE DISTRIBUTION IS THE DIRECT TARGET OF EU SUSTAINABLE TEXTILES FRAMEWORK, INDIRECT IMPACTS ARE MAINLY EXPECTED UPSTREAM

In the EU legislative environment, the fashion industry finds itself under unprecedented spotlight. Centered around the various measures enclosed in the EU Strategy for sustainable textiles, around 50 policy measures and policy frameworks were analyzed, among which 16 key actions were identified to have a significant direct or indirect impact on the fashion value chains, both affecting textile- and leather-based products.

Upon a preliminary impact analysis that has been conducted by The European House - Ambrosetti on the 16 key actions¹, it emerges that significant changes in performances and operations will be required by over 73% of the mapped actions and will predominantly benefit the planet, with over 92% of regulatory devices focused on mitigating industry's environmental impacts. This process will be unleashed mainly by mandatory requirements, which are largely prevailing on voluntary ones in upcoming legislation.

Both for disclosure and performance requirements, distribution actors will be directly responsible. However, material production and assembly actors expect significant indirect impacts as they respond to demands of distribution actors, now operating under more stringent requirements.



The 16 key actions analyzed include EU Taxonomy Regulation, Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence, Digital Product Passport, Disclosure and banning on unsold textiles destruction, Ecodesign Regulation, Green Claims Initiative, Extended Producer Responsibility, Product Environmental Footprint Category Rules Apparel & Footwear, Textile Labelling Regulation, EC Reach Regulation, EU Ecolabel, EU Forced Labour Product Network, Initiative addressing microplastics, Best Available Techniques, Export of textile waste.

(1) The European House - Ambrosetti elaboration of EU Strategy for Sustainable and Circular Textiles - COM 2022/141 final (2022), impacts are reasonable expectations as the EU Strategy has yet to determine policy options for most measures.

MANDATORY REQUIREMENTS WILL ASK FOR AND INCREASING EFFORT ON TRANSPARENCY



CORPORATE SUSTAINABILITY REPORTING DIRECTIVE (CSRD)

The CSRD aims at providing harmonized definitions and comparable data on sustainability issues that are accessible by investors and other external stakeholders. In practice, the policy means that companies will have to make an un periodical sustainability disclosure in accordance to the European Sustainability reporting standards (ESRS), currently in development by the European Financial Reporting Advisory Group (EFRAG)¹.



CORPORATE SUSTAINABILITY DUE DILIGENCE DIRECTIVE (CSDD)

Closely related to the CSRD, the Corporate Sustainability Due Diligence Directive (CSDD) introduces requirement for companies to take appropriate measures to identify potential negative human rights and environmental impacts arising from their own operations or those of their subsidiaries and, where related, their value chains².



TAXONOMY FOR SUSTAINABLE FINANCE

The European Taxonomy is the first internationally unique classification system for identifying sustainable economic activities, i.e., those that contribute both to the growth of low-carbon sectors and to the decarbonization process of more emissive ones. The Taxonomy is structured around six environmental objectives and, for each of these, identifies sectors, activities and technical screening criteria that determine whether and how an activity contributes substantially to the achievement of one or more environmental objectives. For non-financial companies that fall under the scope of the Non-Financial Reporting Directive, the Regulation introduces the obligation to calculate alignment with the European Taxonomy in terms of shares of revenue, CapEx and OpEx attributable to Taxonomy-eligible activities, along with a description of the Accounting Standards used³.



TEXTILE LABELLING REGULATION

The existing textile labelling regulation will be reviewed to reflect new standards in line with the EU Strategy for sustainable textiles. As part of this review and subject to an impact assessment, the Commission will introduce mandatory disclosure of other types of information, such as sustainability and circularity parameters, products' size and, where applicable, the country where manufacturing processes take place ('made in'). In the context of the above proposals, the Commission will also consider the possibility of introducing a digital label⁴.

(1) Corporate Sustainability Reporting Directive (2021) - as of 15 October 2022, even though still under debate, it is likely that the CSRD entry into force will be delayed as follows: disclosure on FY2024 for companies already under obligation of publishing a Non-financial statement according to the current Non-Financial Reporting Directive, on FY2025 for all large EU companies and EU listed companies, except microenterprises, on FY2026 for small-medium enterprises. (2) Sustainable corporate governance and Corporate sustainability due diligence (2021) (3) EU taxonomy for sustainable activities (2021); (4) EU regulation on textile labelling and fibre composition (2022).

AN OBLIGATORY CHANGE OF COURSE IS EXPECTED ALSO FOR BUSINESS CORE-OPERATIONS, TOO

2024 ECODSIGN REGULATION

The Commission will introduce binding product-specific performance requirements that measures products' durability, reliability, reusability, upgradability, reparability, possibility of maintenance and refurbishment, presence of substances of concern, energy use or energy efficiency, resource use or resource efficiency, recycled content, possibility of remanufacturing and recycling, possibility of recovery of materials, environmental impacts, including carbon and environmental footprint, and expected generation of waste materials. The Commission will also introduce mandatory disclosure requirements through Digital Product Passport¹.

2024 BAN OF DESTRUCTION OF UNSOLD GOODS

The Commission proposes a transparency obligation requiring large companies to publicly disclose the number of products they discard and destroy, including textiles, and their further treatment in terms of preparing for reuse, recycling, incineration or landfilling. Subject to receiving the empowerment under the proposed Regulation and a dedicated impact assessment, the Commission will also introduce bans on the destruction of unsold products, including as appropriate, unsold or returned textiles².

2023 EXTENDED PRODUCER RESPONSIBILITY (EPR)

EPR aims at shifting the responsibility of the post-consumer stage, physically or economically, toward the producer and consequently incentives producers to take into account environmental considerations when developing their products and market strategies. Once installed, a national EPR scheme will collect funds from producers (most likely interpreted as large brands and retailers) and redirect them to waste management actors. The EU proposal for EPR for textiles also specifies that fees collected shall be eco-modulated, that is, with bonuses or maluses based on sustainability-related indicators³.

2024 REVISION OF REACH

By developing criteria for safe and sustainable by design chemicals and materials, the Commission will support industry to substitute as much as possible and otherwise minimize substances of concern in textile products in the EU market, as announced in the Chemicals Strategy for Sustainability⁴.

2024 BEST AVAILABLE TECHNIQUES

The Commission will review of the Best Available Techniques Reference Document (BREF) for the Textiles Industry, so that it provides updated, state-of-the-art best practices and guidance for businesses⁵.

(1) Ecodesign for Sustainable Products Regulation (2022) (2) Ban on destruction of unsold goods (2022) (3) EU Strategy for Sustainable Textiles - Extended Producer Responsibility (2022) (4) Report on penalties applicable for infringements on the provisions of the REACH Regulation in the Member States (2010) (5) EU Strategy for Sustainable Textiles - Best available techniques (2022).

VOLUNTARY INSTRUMENTS WILL PROVIDE COMPARABLE, RELIABLE WAYS TO COMMUNICATE PRODUCTS SUSTAINABILITY



2024

PRODUCT ENVIRONMENTAL FOOTPRINT (PEF)

The PEF is the recommended LCA method by the European Commission and it is applicable to all products, thus providing a unifying standard for quantifying the environmental impact of a product (good or service) across the European Union Member States. At the moment, no final policy is in place yet. The PEF is currently being developed under the Single Market for Green Products Initiative, but its application is being explored for multiple other policy options including the EU taxonomy or the Sustainable Product Initiative. It is also possible that the method will be adopted for the information collection required for the Digital Product Passport¹.

PRODUCT ENVIRONMENTAL FOOTPRINT CATEGORY RULES (PEFCR)

PEFCRs are product category-specific, life-cycle-based rules that complement general methodological guidance for PEF studies by providing further specification at the level of a specific product category. PEFCRs help to shift the focus of the PEF study towards those aspects and parameters that matter the most, and hence contribute to increased relevance, reproducibility and consistency of the results by reducing costs versus a study based on the comprehensive requirements of the PEF guide¹.



2024

ECOLABEL

Since 1992, the EU commission has advocated for its own ecolabel program in Europe with the goal of giving customers a single, reliable label. Compared to the PEF, a comprehensive impact oriented, life cycle assessment, Ecolabel has a product issue-oriented approach, addressing specific environmental concerns identified by stakeholders. As part of commitments communicated within the EU Strategy for Sustainable Textiles, the Commission will review the EU Ecolabel criteria for textiles and footwear to support its uptake among producers and offer consumers an easily recognisable and reliable way to choose eco-friendly textile products².



2022

GREEN CLAIM INITIATIVE

The Commission will work on minimum criteria for all types of environmental claims in the context of the Green Claims Initiative. The Commission proposes to amend the Unfair Commercial Practices Directive and the Consumer Rights Directive 2011/83/EU. General environmental claims, such as “green”, “eco-friendly”, “good for the environment”, will be allowed only if underpinned by recognized excellence in environmental performance, notably based on the EU Ecolabel, type I ecolabels, or specific EU legislation relevant to the claim. Voluntary sustainability labels covering environmental or social aspects must rely on a third-party verification or be established by public authorities. There will be conditions for making green claims related to future environmental performance, such as “climate neutral by 2030”, and for comparing to other products. Furthermore, attention will be paid to sector-specific issues such as green claims made on using recycled plastic polymers, in particular, recycled from PET bottles, which are fit for being kept in a closed loop recycling system for food contact material and subject to EPR obligations³.

(1) EU Strategy for Sustainable Textiles - product environmental footprint category rules (2022) (2) The EU Ecolable for Textiles: the Official EU Mark for Greener Products (2022) (3) Initiative on substantiating green claims (2022).

KEY MESSAGE

3.3

CERTIFICATIONS, RATINGS AND CLEAR TARGETS
STAND TO BE KEY MARKET LEVERAGES TO EXERT
PRESSURE FOR SUSTAINABLE PERFORMANCES.

HOWEVER, THEY STILL SEEM NOT ABLE TO
LIVE UP TO THEIR PROMISES OF TRANSPARENCY
AND STANDARDIZATION.

IN THIS CONTEXT, WHILE PEOPLE'S AWARENESS
APPEARS TO GROW, CONSUMERS ARE NOT WILLING
TO PAY A PREMIUM PRICE FOR SUSTAINABILITY

MOST OF THE MAIN FASHION CERTIFICATIONS PLACE SIGNIFICANT BURDEN ON UPSTREAM PLAYERS IN THE SUPPLY CHAIN, FOCUSING ON PRODUCTS

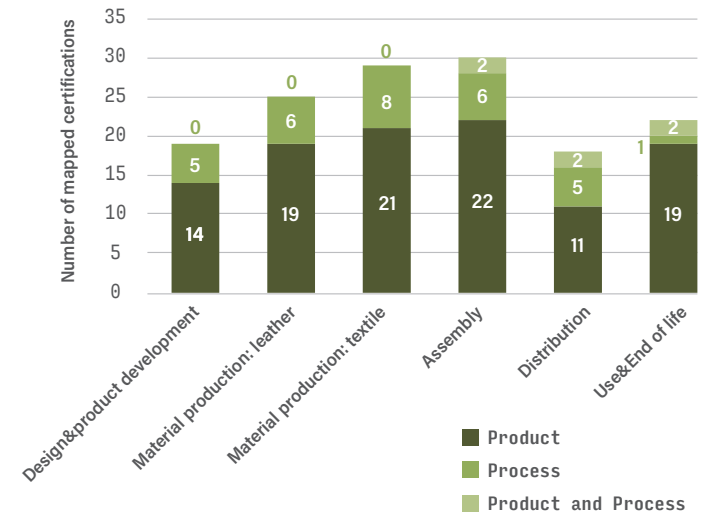
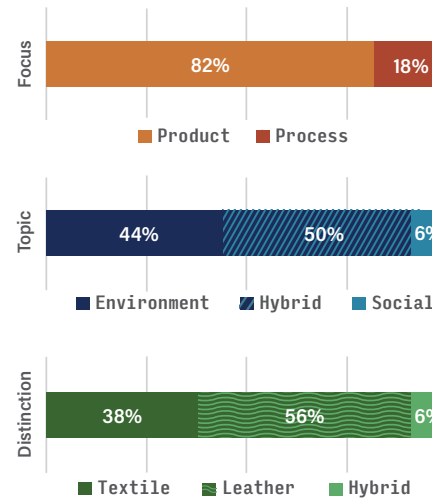
Currently, more than 100 certifications available on the market are applicable to the fashion industry. In order to map the impacts of such devices along the value chains, a non-exhaustive analysis of the 34 most well-known and widespread certifications in the textile, apparel, footwear and leather sectors was conducted¹. Over 82% of those concerns products characteristics and materials composition while only 19% regarding operational processes. Most certification tools integrate both environmental and social criteria (50%) while social issues-dedicated certifications are not as common (6%). Furthermore, 6% of mapped schemes are leather-only, while the majority refers to textiles.

As the preliminary impact analysis conducted shows, certifications may help recyclability by often indicating the composition of apparel items – a crucial information for enabling fiber recycling.

In addition, from the mapping carried out, it emerges that the pressure falls mainly upstream, as certifications represent a tool for brands to exert leverage on the actors in the value chain, influencing their market access.



Mapping textile and leather sustainability certifications on the market¹



(1) The European House – Ambrosetti elaboration on 34 certifications analyzed: B-Corp bluesign®SYSTEM, Content Claim Standard (CCS), ECO PASSPORT by OEKO-TEX® Ecoproof, EU- Ecolabel, Eco Pelle UNI 11427, Fairtrade textile standard, From Cradle to Cradle, Get It Fair® FSC, Global Organic Textile Standard (GOTS), Global Recycled Standard (GRS), Green Shape, GreenScreen Certified, ISO 14001, ISO 14021, ISO 14024, ISO 45001, ISO 50001, Leather Standard by OEKO, Made in Green by OEKO-TEX® Naturleder , Naturtextil BEST, Organic Content Standard (OCS), Recycled Claim Standard (RCS), Responsible Alpaca Standard (RAS), Responsible Mohair Standard (RMS), Responsible Wool Standard (RWS), SA8000, Standard 100 by OEKO-TEX® STeP (Sustainable Textile & Leather Production) by OEKO-TEX® TF- Traceability & Fashion, ZDHC (Zero Discharge of Hazardous Chemicals).

ESG RATINGS ARE HARDLY PROVIDING A CLEARER PICTURE FOR INVESTORS

Increasing interest from investors in companies' ESG performances has led to a need of comparable evaluations and assessments of the latter. ESG ratings and rankings were born out of this need: they are meant to be instruments that provide a clearer picture for investors that are looking to base their decisions on ESG-related issues and risks, as well as for long-term visioned investors that are trying to allocate their resources to sustainable businesses in an effective manner.

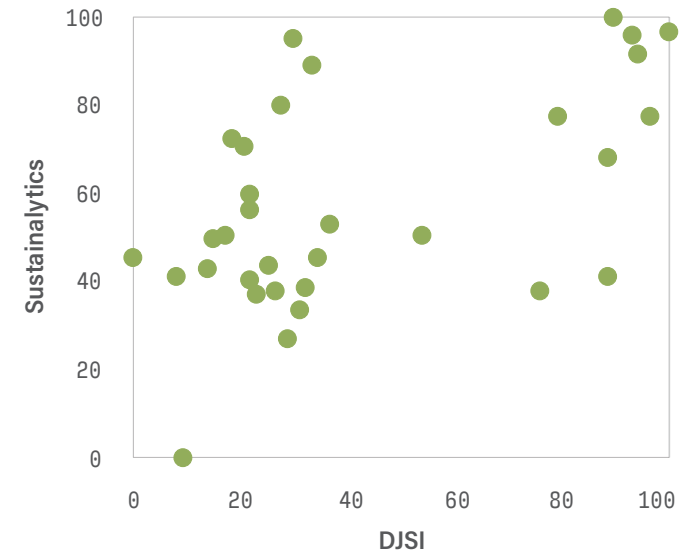
However, whether the current ESG rating providers achieve such goals is much debatable: similarly to corporate sustainability reporting practices, a proliferation of ESG ratings in recent years has

been observed. As of 2018, over 600 ESG ratings and rankings existed globally and have been growing since¹. While ESG ratings have the merit of giving an aggregate score which includes a very large number of KPIs, rating agencies often do not share standardized methodologies in their sustainability assessments of companies². For instance, Sustainalytics and the Dow Jones Sustainability Index's ESG ratings of 32 leading companies in the textile, apparel and luxury goods sector³ exhibits a low correlation (0.55)³.

The divergent methodologies of ESG ratings risk of creating confusion in financial markets on what companies are most virtuous, as investors tend to distrust ESG ratings². As a result of investors' growing skepticism, this year the inflow of money into sustainable funds is slowing down compared to 2021⁴.



Textile, Apparel & Luxury goods ESG rating missing correlation 100=max score in the industry³



(1) SustainAbility: Rate the Raters 2020: Investor Survey and Interview Results (2020) (2) Berg, F., Kolbel, F.J., Rigobon, R.: Aggregate Confusion: The Divergence of ESG Ratings (2022) (3) The European House – Ambrosetti – elaboration on data from DJSI and Sustainalytics (2022): businesses analyzed include the complete set of businesses that were rated by both services: 32 companies analyzed are Burberry Group, Makalot Industrial Co., Ltd., Moncler, Eclat Textile Co., Ltd., Gildan Activewear, Inc., Capri Holdings Ltd., Hermès International, Ruentex Industries Ltd., Kering, Shenzhou International Group Holdings Ltd., Compagnie Financière Richemont, Crocs, Inc., Pandora, PUMA, HUGO BOSS, The Swatch Group, LVMH Moët Hennessy Louis Vuitton, Feng Tay Enterprises Co., Ltd., Deckers Outdoor Corp., NIKE, Inc., Ralph Lauren, ASICS Corp., Adidas, Prada, Hanesbrands, Inc., Li Ning Co., Ltd., Titan Co. Ltd., Christian Dior, FILA Holdings Corp., Pou Chen Corp., PVH Corp., Skechers U.S.A., Inc. (4) The Economist: ESG: Three letters that won't save the planet (2022).

CONSUMERS ARE 24 TIMES MORE CONCERNED ABOUT SUSTAINABILITY THAN THEY ARE WILLING TO PAY FOR IT

Unlike the clearcut case of regulatory actors, whether consumers represent a real source of pressure for sustainable fashion remains a controversial topic. From a screening of surveys from the last 5 years, no consistent increase in consumers behavioral change in favor of sustainable products could be detected¹.

On top of a lack of longitudinal studies, surveys conducted in the same year, results to similar questions show significant inconsistencies that cannot be explained with statistical margin of error. For instance, results to the questions “whether consumers consider sustainability as an important factor in their purchasing decisions” from two surveys conducted in the same period range from 24% to 61%².

A BCG survey reveals that about 80% of consumers say they are concerned about sustainability, but only 1% to 7% have paid a premium for more sustainable purchases. Interest in sustainability always decreases with increasing concreteness of actions. Luxury is the category for which customers are the least interested in sustainability aspects³.

Purchase habits of 19,000 consumers across US, Japan, Germany, France, Italy, China, India, and Brazil³

% of consumers at various stages	APPAREAL	LUXURY	GROCERY	PC&TABLET	ELECTRICITY	CARS
Concerned about sustainability in category	71%	49%	69%	74%	80%	80%
Adopting sustainable behaviours	38%	21%	32%	41%	60%	39%
Acting by purchasing sustainable products and services	12%	9%	7%	11%	10%	11%
Paying stered premium for sustainability	3%	3%	2%	4%	4%	3%

(1) The European House – Ambrosetti elaboration on 20 separate surveys conducted by Curiosity at work, More in common, McKinsey & Company, Simon-Kucher & Partners, Deloitte, Piper Sandler – Businesswire, CGS, Statista, KPMG, Fashion revolution, IPSOS, Nosto, from 2017 to 2022. (2) The European House – Ambrosetti elaboration on Curiosity at work - Momentive Brand Tracking (2020) and Simon-Kucher & Partners (2021) surveys (3) BCG climate and sustainability consumer survey (2022), the table shows an extraction of relevant data to confront fashion products with other significant categories.

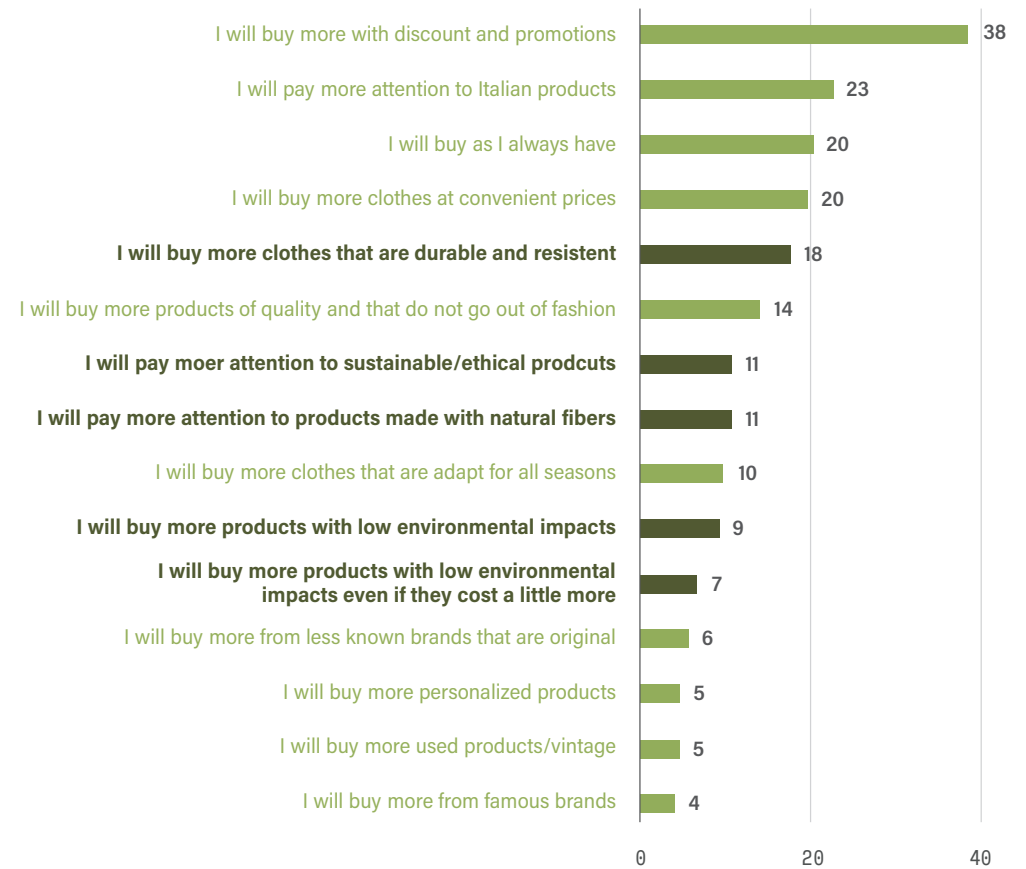
ITALIAN CONSUMERS TRADE SUSTAINABILITY FOR CONVENIENCE, SHOWING LITTLE WILLINGNESS TO PAY FOR THE SUSTAINABILITY PREMIUM

Even sustainability-minded consumers regularly trade sustainability for convenience. Data collected from 2020 to 2021 from Italian consumers showed a slight increase in willingness to pay more for products with lower environmental impact; however, the same consumers also put sales and promotions at the top of their priorities when making purchasing decisions. A convenient price is the third most important factor in the ranking, far exceeding the importance of any sustainability-related concerns¹.

Another reason might be that consumers do not trust sustainability claims made by fashion brands and retailers. In 2020, a mixed approach study found that over 50% reported that sustainability somewhat influences their purchasing decision when shopping for clothes, but only 15% of them believe fast fashion companies care about sustainability, whereas over 70% of them believe that fast fashion companies are only promoting sustainable initiatives for economic reasons¹.

Underlying the mistrust, there is a real problem of lack of consumer-facing instruments. In a 2019 survey, more than half (52%) of consumers in the UK and US want the fashion industry to become more sustainable, and 29% of these consumers say they will pay more for sustainably-made versions of the same items. But at the same time, 45% of the 2,000 consumers who were polled agree that it is difficult to know which fashion brands are really committed to sustainability.

In general, when thinking about the next purchases of clothing, shoes and accessories, how do you plan to act? (% of total interviewees)¹



(1) The European House – Ambrosetti elaboration on Sita Ricerca (2022), data refer to average value of three surveys conducted in 2020 and 2021.

THE DEMAND FOR ACCOUNTABILITY STARTED FROM SOCIAL INSTANCES, NOW BUSINESSES PRIORITIZE THE ENVIRONMENT

Activist groups can draw attention to phenomena that have just occurred, effectively acting as catalyst that kick-start or accelerate a broader movement.

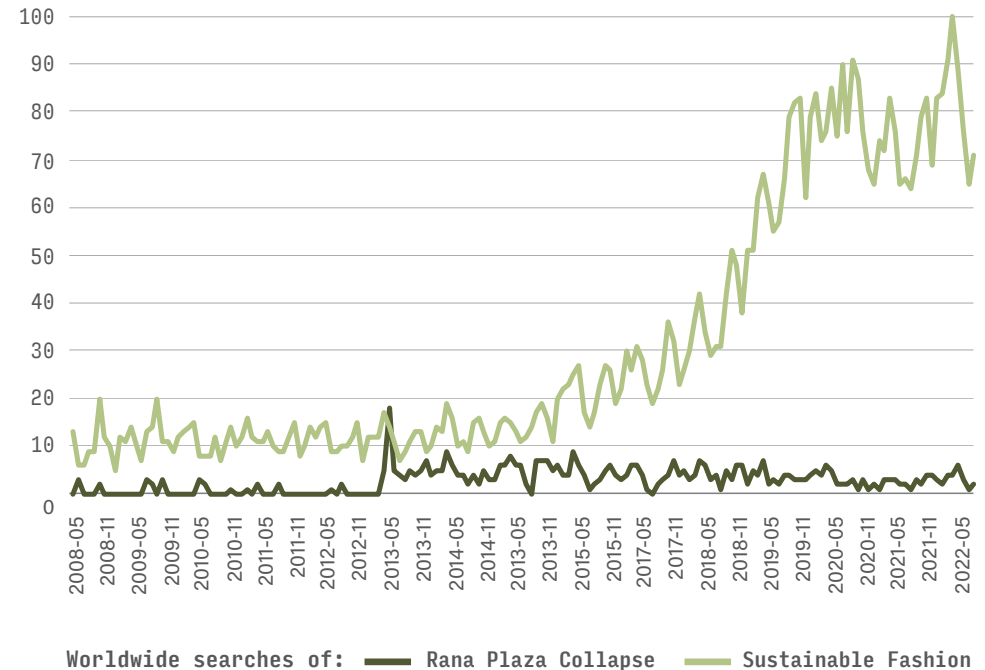
The collapse of the Rana Plaza in Bangladesh on 24 April 2013, in which at least 1,134 female fashion workers died, led to a profound rethinking of the global textile industry: workers, unions, lawyers and consumers began to demand real changes from the impunity and abuses that have fueled the world's most famous fashion brands for decades.

In the years following the collapse of Rana Plaza, there was an explosion of interest in sustainable fashion; as attention to Rana Plaza has gradually decreased, the discussion it prompted continued to gain momentum. However, it is worth noticing that while the catalyzing event initially drew attention to workers' rights issues, the movement slowly transitioned into a well-rounded sustainable transition, mostly focused on environmental issues.

Among various interest groups that are pushing for the sustainable transition of the sector, NGOs and trade union associations remain about the only source of pressure that focus on social aspects. Prominent groups include Clean Clothes Campaign and its local chapters, Fashion Revolution, World Fair Trade Association, Fair Labour Association, and FairWear Foundation.

(1) The European House - Ambrosetti elaboration of Google trends data (2022).

Sustainable fashion research results post Rana Plaza¹
(Indexed values with maximum value equaling 100)



4.

GLOBAL BUSINESS RESPONSE

KEY MESSAGE

4.1

The Fashion industry is making strong commitments at a collective level.

Several voluntary alliances and initiatives have been established to face rising pressures and attempting to spark cooperation among upstream and downstream players.

KEY MESSAGE

4.2

Sustainability management is correlated to companies' dimensions. Large companies focus on environmental issues, especially setting targets on CO₂ emissions and raw materials, but the change in governance structure to ensure internal accountability is slower.

KEY MESSAGE

4.3

Decarbonisation in the fashion industry represents a huge investment opportunity still unaddressed. New solutions are ready to be brought to scale. Cooperation along the value chain is critical and brands sit at the nexus of all stakeholders.

KEY MESSAGE

4.1

THE FASHION INDUSTRY IS MAKING STRONG
COMMITMENTS AT A COLLECTIVE LEVEL.
SEVERAL VOLUNTARY ALLIANCES AND
INITIATIVES HAVE BEEN ESTABLISHED TO
FACE RISING PRESSURES AND ATTEMPTING TO
SPARK COOPERATION AMONG UPSTREAM AND
DOWNSTREAM PLAYERS

IN THE ABSENCE OF AN UNAMBIGUOUS REGULATION ON WHAT IS “SUSTAINABLE”, GREENWASHING IS AN ISSUE FOR THE FASHION INDUSTRY

ACROSS ALL INDUSTRIES

Out of the 244 dubious claims and initiatives analyzed by the European Commission, in 59% of the cases, the company did not provide easy nor accessible evidence to support their claim¹.

Out of a global review of randomly-selected websites, 40% of ecological claims shared online in Europe can be considered false or deceiving.

37% of the claims taken into consideration were found to be vague and too generic in their description – using words such as “sustainable” or “more ethical” – with the goal of conveying to the costumer/buyer/consumer the feeling and impression that the product holds sustainable value and does no harm to the environment¹.

The outcome of the screening done by the European Commission gives back evidence showing that in 42% of the cases the claims can be considered to be mis-leading and overall false and have the potential of creating a deceptive and unfair commercial practice as stated by the Unfair Commercial Practices Directive (UCPD)¹ – also know as “consumer law”.

IN THE FASHION INDUSTRY



Even though the majority of fashion brands made sustainability-related commitments and goals, out of the 39% of fashion products that have claims related to sustainability, 59% of these products were discovered to have no evidence in support of these claims, making them misleading or unsubstantiated³.



From a consumer’s perspective, an assessment carried out on the consumer’s trust/mistrust of brands’ sustainability claims, only 18% of buyers in the UK stated that they trust the information and claims provided by brands³.



The use of synthetic fibers – a material known because of its negative environmental impacts and fossil fuel origin – as of now account for 69% of all materials used in textiles (75% by 2030). However, no company has made a clear commitment to eliminate their use from their collections.

(1) European Commission: Screening of websites for ‘greenwashing’: half of green claims lack evidence (2021); (2) Gov.UK: Global sweep finds 40% of firms’ green claims could be misleading (2021); (3) Synthetics Anonymous: Fashion Brands’ addiction to fossil fuels (2021).

AT COP26, FASHION BUSINESSES RENEWED AMBITIOUS COLLECTIVE COMMITMENTS TO TACKLE CLIMATE CHANGE

By signing the Fashion industry Charter for Climate Action, renewed at COP 26 in November 2021 in Glasgow, fashion businesses commit to, among other things, support the ambition of the Paris Agreement in limiting global temperature rise to 1.5 degrees Celsius above pre-industrial levels.

Concretely, the Charter requires signatories to select one of the two options¹ in order to achieve net zero emissions no later than in 2050:

1.

SCIENCE-BASED EMISSIONS REDUCTION TARGETS WITHIN 24 MONTHS

Setting Science Based Target initiative-approved emissions reduction targets on scope 1, 2 and 3 within 24 months, in line with the latest criteria and recommendations of the SBTi.

2.

50% GHG REDUCTION BY 2030 COMPARED TO 2019

Setting at least 50% absolute aggregate GHG emission reductions in scope 1, 2 and 3 of the Greenhouse Gas Protocol Corporate Standard, by 2030 against a baseline of no earlier than 2019.

109

Signatories among brands, retailers, fabric and textile producers, circular economy solution providers and many more.

41

Supporting organizations among international coalitions, UN agencies, NGOs, charitable foundations and national regulatory bodies.

(1) Fashion Industry Charter for Climate Action (2021).

ALIGNED TO THE GLOBAL AGENDA, ALLIANCES PRIORITIES APPEARS TO BE MOSTLY ENVIRONMENTAL AND LED BY CLIMATE MITIGATION

Over the last 20 years, several initiatives have been launched globally to facilitate networking and harness synergies throughout the fashion industry with the goal of accelerating sustainable change in the industry. These initiatives are places for a systematic dialogue to happen between players all along the value chain. They offer expertise, advice and information, guidelines and recommendations on sustainable fashion.

In an analysis carried out by The European House – Ambrosetti on the commitments established by international alliances and initiatives on sustainable fashion, 47 goals and ambitions were found, all set by the 13 main alliances for a sustainable fashion.

The results of the analysis show how emissions are the hot topic of the moment, representing 40% of total pledges and the only topic on which quantitative targets have been set as well as with a deadline year.

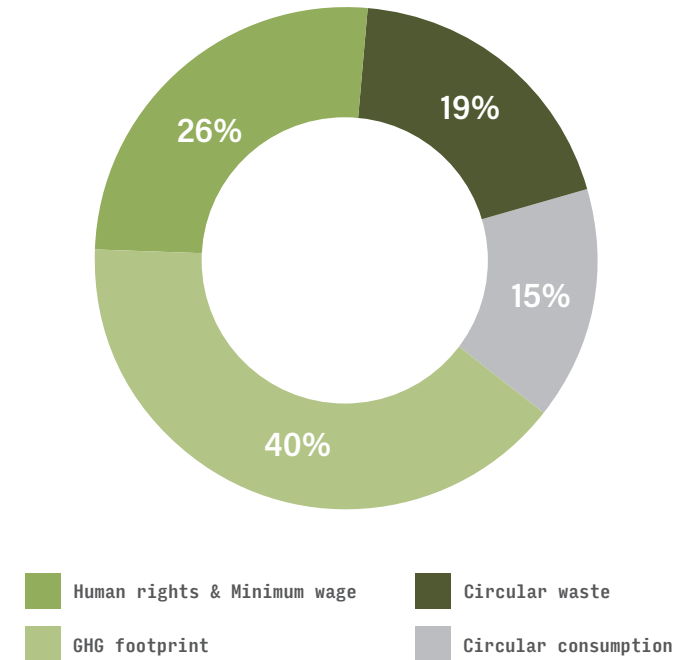
Water is not covered as none of the main initiatives appear to have set any commitment on the topic.

26% of commitments address social aspects with a focus on human rights and the guarantee of minimum wages. 20 of the goals have an impact on both the Production and the Assembly and Finishing phase of the supply chain. This is coherent to the information that most at-risk workers from a human rights perspective are employed in these phases of the value chain.

These international and multistakeholder initiatives allow the sharing of goals and burdens along the value chain. In fact, the analysis found an almost equal distribution of the commitments' impacts along the 5 phases of value chain with Production accounting for 23%, followed by Use & End of life for 22%, Distribution and Assembly & finishing – both 21% - and Design & product development for 15%.



Distribution of alliances commitments per topic¹



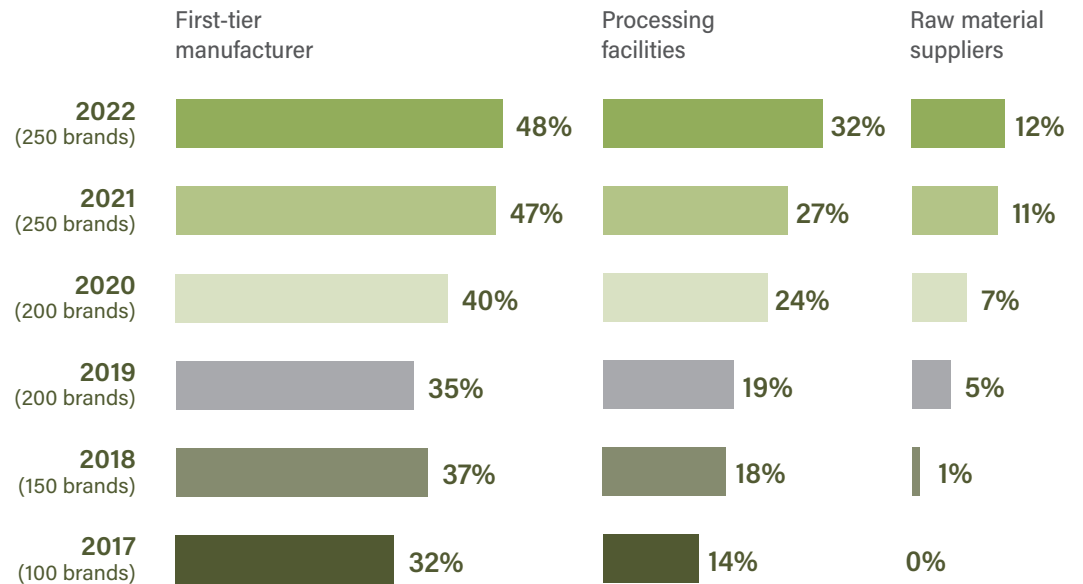
(1) The European House-Ambrosetti on data by: Better Cotton Initiative, Circular Fashion Partnership, European Fashion Alliance, Ethical Fashion Initiative, EURATEX ReHubs, Fashion for Good, Fashion Pact, Global Fashion Agenda, Monitor for Circular Fashion, RETEX Green, Sustainable Apparel Coalition and Sustainable Fashion Alliance.

ORGANIZED ACTIVISM TRIES TO DRAW ATTENTION TOWARDS TRANSPARENCY

Activism is demanding more transparency and accountability along the value chain. To this end Fashion Revolution, one of the largest fashion activism movements in the world, produced the Fashion Transparency index to measure what brands know and share publicly about their value chains and their impact on human rights and environment. Indeed, more transparency can help labour and environmental rights advocates and activists identify, report and remedy suspected abuses, and can help brands and retailers better track and manage the social, environmental and governance risks that affect their business.

On 15 July 2022, the seventh edition of the Index was released: from this last edition, emerges that the majority of brands (85%) do not disclose their annual production volumes despite mounting evidence of clothing waste around the world, and most major brands and retailers (96%) do not publish the number of workers in their supply chain paid a living wage. Brands have made progress in terms of tracking their upstream suppliers over the last years, however in 2022 only 48% of businesses publicly communicate their first- tier manufacturers and only 12% track third-tier suppliers.

Share of brands publishing suppliers lists¹



(1) The European House – Ambrosetti elaboration of Fashion Revolution Data (2022).

KEY MESSAGE

4.2

SUSTAINABILITY MANAGEMENT IS CORRELATED
TO COMPANIES' DIMENSIONS.
LARGE COMPANIES FOCUS ON ENVIRONMENTAL
ISSUES, ESPECIALLY SETTING TARGETS ON
CO₂ EMISSIONS AND RAW MATERIALS, BUT THE
CHANGE IN GOVERNANCE STRUCTURE TO ENSURE
INTERNAL ACCOUNTABILITY IS SLOWER

AS SUSTAINABILITY PRESSURE IS ABOUT TO INCREASE FOR ABOUT 1,000 EU FASHION COMPANIES, ONLY LARGER ACTORS ARE PARTIALLY READY



According to the emerging requirements introduced by the Corporate Sustainability Reporting Directive, all European large companies and listed companies will be required, starting from FY2023, to disclose on their quantitative sustainability performances as well as their improvement targets and internal accountability mechanisms. Similarly, they will have to comply with the requirements imposed by the European Taxonomy on sustainable finance, by publishing the share of their revenues, capex and opex aligned with industry quantitative criteria. Among all 49,000 European enterprises that will be subject to these obligations, roughly 1,000 are along the fashion industry value chain. About 300 are in Italy, 130 in France and 110 in Germany. All the other countries have less than 100 actors that will be subject to this new Directives with an average of 25 companies.

A benchmark conducted by The European House – Ambrosetti on the 100 largest companies by turnover in Europe that will be subject to the CSRD and the EU Taxonomy shows that 64 of them have a structured sustainability strategy and periodically disclose

their results through sustainability reports or on their website. All the 28 publicly listed companies in the sample have a structured sustainability approach and periodically disclose their results, since they are probably already subject to the current European directive on mandatory sustainability reporting. The remaining ones do not make commitments, or their commitments are qualitative and vague.

The benchmark analysis shows how, not taking into consideration the performance levels they achieve, larger companies have implemented a more structured approach to sustainability management. In fact, among them, it is more frequent to observe the definition of quantitative targets on key sustainability topics, the adoption of topic specific policies and procedures, as well as the implementation of internal accountability mechanisms such as variable executive compensation correlation to sustainability targets.

The largest 30 companies make up for the 80% of the sample revenues and all have a structured approach. Among the smallest 30, worth the 3% of the sample revenues, 12 address sustainability.

(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. CSRD is expected to enter into force starting from FY2023 but, as of 15 October 2022, even though still under debate, it is likely that the CSRD entry into force will be delayed as follows: disclosure on FY2024 for companies already under obligation of publishing a Non-financial statement according to the current Non-Financial Reporting Directive, on FY2025 for all large EU companies and EU listed companies, except microenterprises, on FY2026 for small-medium enterprises.

CLIMATE CHANGE, RAW MATERIALS AND WASTE ARE THE HOT TOPICS, WHILE BIODIVERSITY REMAINS OVERLOOKED

Within companies that address sustainability, more than 95% reports performances on or has set quantitative targets on climate change, raw materials, and waste management.

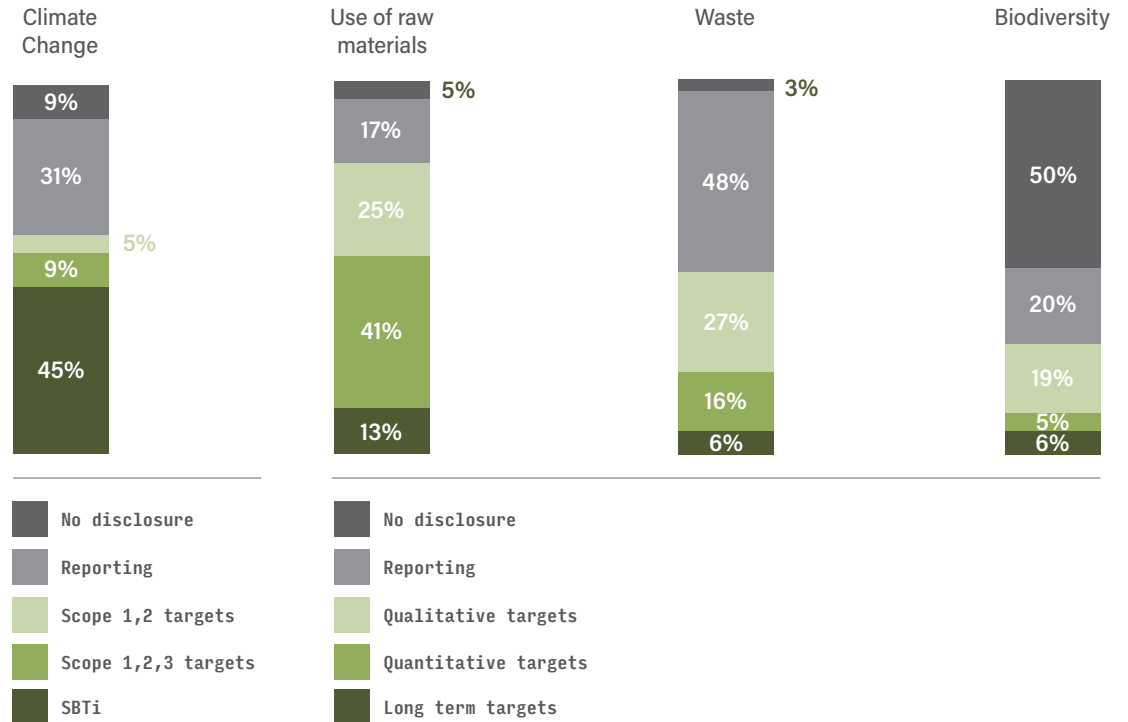
Companies active on the issue direct much of their efforts on climate change: about 60% set quantitative targets on CO₂ emissions, 31% still report on their past performances, while the remaining do not cover the topic. 45% have set targets or made commitments under the Science Based Target initiative.

Regarding the use of raw materials, more than 50% of companies have set quantitative targets, 13% with a time horizon exceeding 2030. On waste, nearly 100% of companies are active, but of these 48% simply report past performances without setting any targets.

Finally, regarding biodiversity, 30% set targets – a third of which are quantitative, 20% report about it and 50% of the sample does not cover the topic.



Level of companies' reporting and commitment on environmental topics¹



(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.

COMPANIES ARE DESIGNING POLICIES TO IMPROVE THE SOCIAL STANDARDS OF THEIR SUPPLY CHAIN, FOCUSING MAINLY ON HUMAN RIGHTS

Companies link their supply chain and responsible procurement policies to human rights and minimum or living wage.

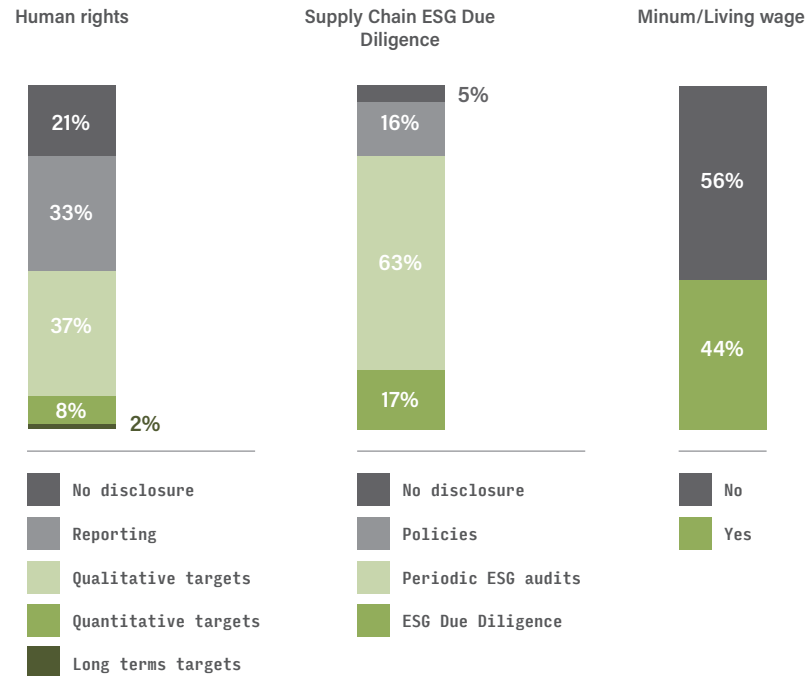
Out of the 64 companies with a structured sustainability reporting, almost 33% report their human rights past results and initiatives, 37% and 10% of them establish forward-looking qualitative targets and quantitative targets respectively.

While 5% do not cover supply chain as a topic, 16% have adopted specific policies with guidelines that suppliers must respect and adhere to; beside policies, 63% and 17% respectively also carry out periodic ESG audits to inspect the working conditions in their supply chain and conduct a structured ESG due diligence on their suppliers.

As part of their supply chain policies, 44% of companies declare they have put in place measures to ensure supply chain workers are paid a minimum/living wage.



Level of companies' reporting and commitment on supply chain topics¹



(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.

COMPANIES ARE LESS COMMITTED TO SOCIAL ISSUES COMPARED TO ENVIRONMENTAL ONES, WHILE PROGRESS ON GOVERNANCE REMAINS SLOW

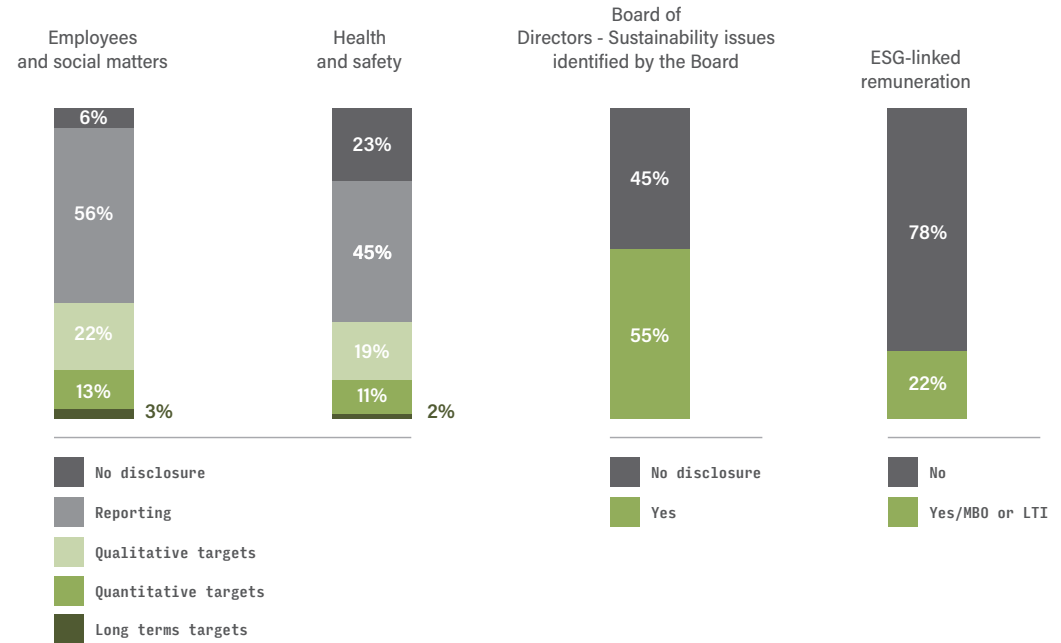
As for other social issues, respectively 56% and 45% of companies report their performance on employees and their health and safety.

Compared to environmental issues, namely climate change, raw materials and waste, companies are overall less committed to social issues. 22% and 13% establish either qualitative or quantitative commitments as part of their employees' strategy, and these figures decrease respectively to 19% and 11% for health and safety.

As for governance, 55% of companies report that their Board of Directors is involved in identifying sustainability issues and in shaping the corporate sustainability strategy. However, 78% have not linked the variable remuneration of executives to the achievement of sustainability objectives and KPIs, either in the form of short-term Management by Objectives (MBO) or long-term Long-Term Incentives (LTI) schemes.



Level of companies' reporting and commitment on social and ESG governance topics¹



(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.

DECARBONIZATION AMBITIONS GROW EXPONENTIALLY, BUT COMMITMENT TO SET TARGETS IS MORE COMMON THAN ACTUAL TARGETS

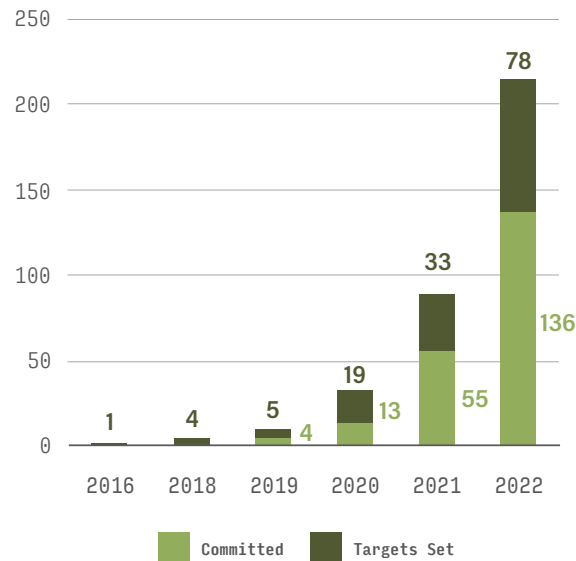
Fashion industry's commitment to Science Based target initiative (SBTi) increased exponentially from 2016 to 2022¹.

Among committed businesses, a majority (63%) is yet to set their specific targets¹.

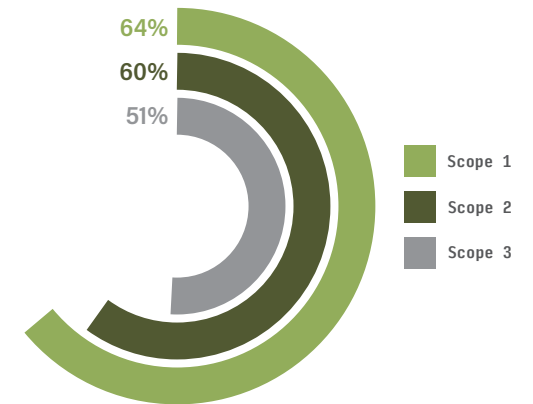
When it comes to current decarbonization performances, 64% of companies have disclosed their scope 1 GHG emissions, while only 51% disclose their scope 3 GHG emissions through Carbon Disclosure Project (CDP).



Textiles, Apparel, Footwear and Luxury good businesses engaged in SBTi worldwide 2016-2020¹



CDP disclosures of Apparel stores, design & manufacturing, Textiles & fabric goods, luggage & bags 2022, by scope (n=138)¹



(1) The European House - Ambrosetti elaboration on Science Based Targets initiative and Carbon Disclosure Project data (2022), businesses can send a commitment letter to publically communicated their intent to set SBTs, at which point they can collaborate with SBTi to initiate the development of their targets.

GLOBAL LEAD RETAILERS ARE SETTING AMBITIOUS TARGETS IN RESPONSE TO PRESSURES, BUT THEY SEEM NOT ACHIEVABLE WITHOUT THE VALUE CHAIN

The European House - Ambrosetti conducted an analysis on the 12 global leading fashion retailers' sustainability goals and commitments in order to map their impacts along the value chain. In this research, over 84 relevant goals have been identified. Results shows three main results. Firstly, just as for the mapping of the alliances, the transition is focused on "green" targets, with 79% of goals concerning environmental topics such as GHG footprint (38%) circularity in waste (12%), water management (0.5%) and consumption (28.5%), and only 21% regarding human rights and wages. Remarkably, 10 out of 36 circularity in waste and consumption goals revolves around sustainable packaging materials. Secondly, commitments strongly conform to the CO₂ agenda, as over 43% of the targets are set for 2025 and 35% for 2030. Lastly, retailers' commitments show an almost equal distribution of the impacts along the 5 phases of value chain.

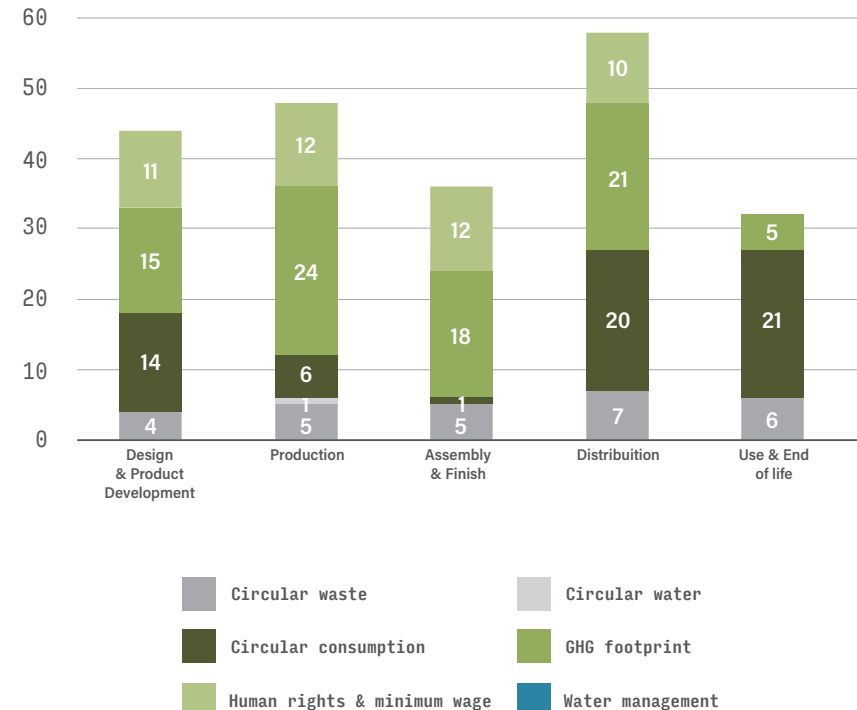
Overall, it is interesting to notice that, even though 38% of total commitments have as a goal the mitigation of environmental concerns, only 6 out of the 29 "GHG footprint" commitments detected mention Scope 3 emissions – which we know are the most impacting and account for the biggest portion of the total of emissions from an environmental point of view.

27% of the commitments will have an impact on the distribution phase, which seems understandable considering the major impact that land and sea distribution has on the environment because of fuel-related emissions.

Only one of the mapped commitments concerns the circularity of water.



Impacts of mapped retailers' targets along the value chain¹



(1) The European House-Ambrosetti on data by Asos, Bloomingdale's, Boohoo, Neimanmarcus, Farfetch, Harrods, Macy's, Mytheresa, Nordstrom, Selfridges, Ynap, Zalando.

KEY MESSAGE

4.3

DECARBONISATION IN THE FASHION INDUSTRY
REPRESENTS A HUGE INVESTMENT
OPPORTUNITY STILL UNADDRESSED.
THE GOOD NEWS IS THAT A STRONG PIPELINE OF
SOLUTIONS IS READY TO BE BROUGHT TO SCALE.
COLLECTIVE ACTION ALONG ALL THE VALUE
CHAIN IS CRITICAL AND BRANDS SIT AT THE
NEXUS OF ALL STAKEHOLDERS

\$1 TRILLION TO ACHIEVE NET ZERO BY 2050: AN INVESTMENT OPPORTUNITY STILL UNADDRESSED DUE TO STRUCTURAL BARRIERS¹

According to Fashion4Good and the Apparel Impact Institute, \$1 trillion dollars is needed to drive the fashion industry to net-zero by 2050. The financing opportunity is multi-faceted and will require a committed and coordinated effort by brands, manufacturers, philanthropy, government, and industry organizations.

Philanthropic and government grants, although they represent only 5% of the total amount, are critical for catalyzing industry and financial capital.

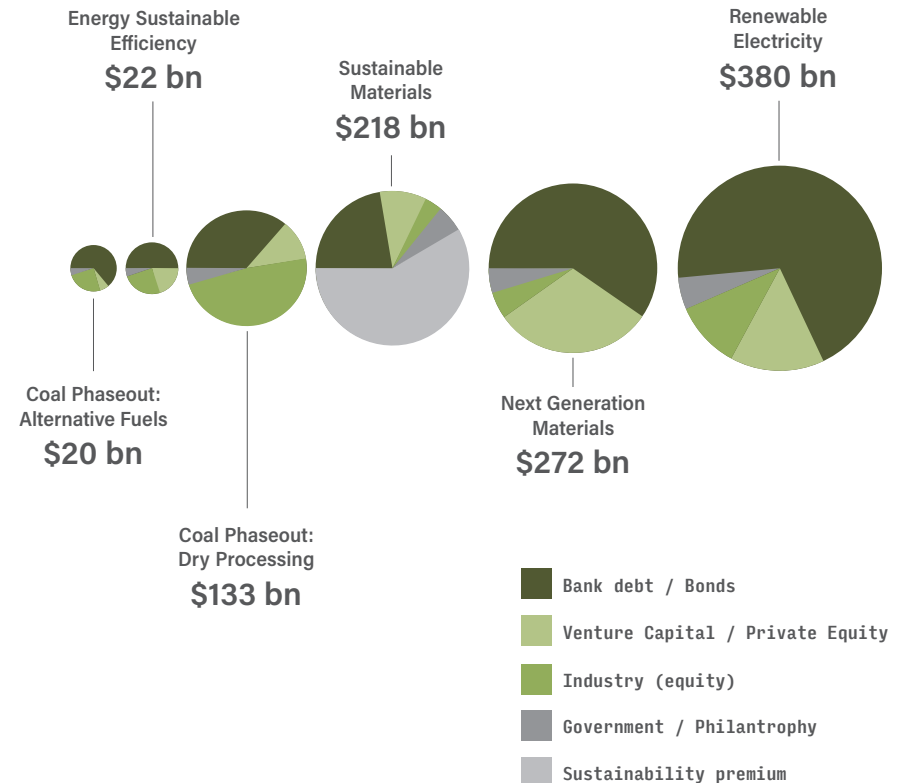
A strong pipeline of solutions are ready to be implemented and brought to scale: 47% of CO₂ reductions come from implementing existing solutions. The higher the risk profile perceived, the higher the return on investment

About 25% of the financing opportunity lies at the beginning of the value chain, where raw materials solutions have the highest impact potential.

Technologies tend to have longer and more capital-intensive time-to-market cycles. In many cases, also require significant additional infrastructure investment to enable the new technologies. Few investors have the technical knowledge to effectively evaluate the potential of these technologies and form an investment decision.

Structural barriers stand in the way of financing the sustainable fashion transition. These include limited awareness of the financial opportunity, even within the industry, and unequal power relations. Although brands have the greatest incentive and the most pressure to drive towards sustainability, efforts are limited and the industry expects the upstream supply chain to account for the costs and risks, with little guarantee that they will be in a position to capitalize on their investment. As a result, they have little incentive to support and use these disruptive technologies.

Investment required for fashion decarbonization by investor type¹



(1) Unlocking The Trillion-Dollar Fashion Decarbonisation Opportunity: Existing And Innovative Solutions', Fashion for Good and Apparel Impact Institute (2021).

5.

THE ITALIAN VALUE CHAIN DEALING WITH SUSTAINABILITY

KEY MESSAGE

5.1

The Italian value chain is mainly composed of small players. The profit margins rate between brands and supply chain shows important differences: that of brands is on average higher but more volatile, while that of supply chain is lower but more stable.

KEY MESSAGE

5.2

The readiness for transition is directly proportional to the size of the supply chain companies. There is a great specularity of behavior between large and small companies. Large ones are more active on reporting, performance monitoring and certification, small ones much less so.

KEY MESSAGE

5.3

Regardless of size, **pressure for supply chain companies comes from brands.** Institutional and financial pressures are not acknowledged as relevant. Supply chain companies are reactive to brand demands but not proactive to anticipate it.

KEY MESSAGE

5.4

The lack of a standard is considered the biggest barrier to transition by most companies, according to all supply chain actors and regardless of size.

KEY MESSAGE

5.1

THE ITALIAN VALUE CHAIN IS MAINLY
COMPOSED OF SMALL PLAYERS.
THE PROFIT MARGINS RATE BETWEEN BRANDS
AND SUPPLY CHAIN SHOWS IMPORTANT
DIFFERENCES: THAT OF BRANDS IS ON AVERAGE
HIGHER BUT MORE VOLATILE, WHILE THAT OF
SUPPLY CHAIN IS LOWER BUT MORE STABLE

ITALIAN FASHION SUPPLY CHAINS: B2B PLAYERS MARGINS ARE STABLE, UNDER 10%

According to an assessment conducted by The European House - Ambrosetti, the Italian supply chain is characterized by the small size of the actors: 50% have a turnover of less than €5 million while only 3% exceed €50 million.

Covid has decreased turnover by an average of 20% and marginality decreased by a few points with differences among the supply chains (most affected Leather Goods, Footwear and Textiles). Effect of 2021 re-bounce is visible in higher average EBITDA margins.

Scope of analysis

REFERENCE SUPPLY CHAIN	COMPANIES IN SCOPE	2021 COVERAGE
Textile	711	77%
Clothing manufacturing	706	67%
Knitwear	209	79%
Tannery	350	76%
Leather goods	222	77%
Footwear	542	69%

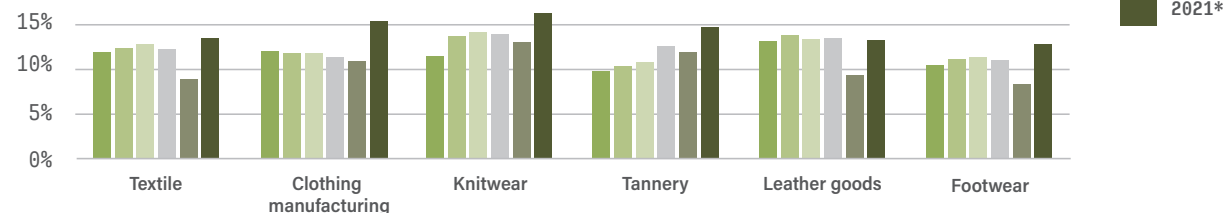
The European House - Ambrosetti elaboration on Aida - Bureau van Dijk (2740 supply chain companies with 2019 turnover > 3mn €); *2021 data coverage is partial.



Fashion supply chains in Italy by companies' average turnover (mn €)



Fashion supply chains in Italy by companies' average EBITDA margins (%)



LUXURY BRANDS OUTPERFORM ALL OTHER BRANDS IN TERMS OF MARGINALITY (AND B2B PLAYERS)

The overall margins of brands is more volatile than supply chains, being strongly linked to the spending power of consumers and the success of marketing and distribution policies.

Looking at Luxury brands (Brands part of luxury groups and Independent luxury brand), marginality is decisively higher – sustaining marginality of “brands” cluster. In fact, marginality of non luxury is, on average, lower than the average one of B2B players.

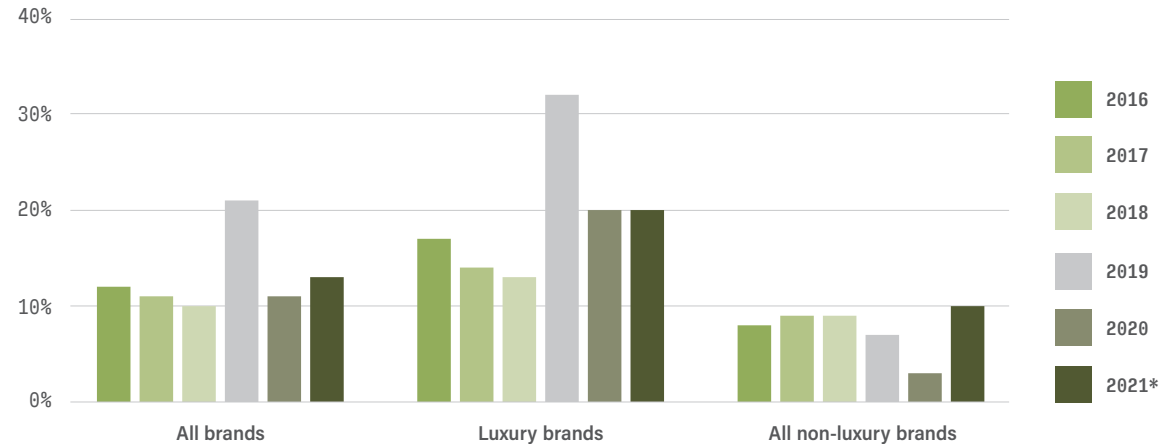
Taking into account Supply Chains though, stronger ties are between Luxury players and Italian B2B Supply Chains, while in other brands, lot of players have models relying on supply platforms from other geographies.

Scope of analysis

SECTOR	COMPANIES IN SCOPE	2021 COVERAGE
Luxury brands	22	64%
High-end brands	25	64%
All brands	149	64%



Italian fashion brands EBITDA (%)



The European House – Ambrosetti elaboration on Aida - Bureau van Dijk (196 brands with 2019 turnover>3mn €); *2021 data coverage is partial.

KEY MESSAGE

5.2

THE READINESS FOR TRANSITION IS DIRECTLY
PROPORTIONAL TO THE SIZE OF THE
SUPPLY CHAIN COMPANIES.
THERE IS A GREAT SPECULARITY OF BEHAVIOR
BETWEEN LARGE AND SMALL COMPANIES.
LARGE ONES ARE MORE ACTIVE ON REPORTING,
PERFORMANCE MONITORING AND CERTIFICATION,
SMALL ONES MUCH LESS SO

PERIMETER SURVEYED AND DISCLAIMER

To measure the readiness of the Italian fashion supply chain, responses from 167 companies to a voluntary sustainability assessment were analyzed by The European House – Ambrosetti¹.

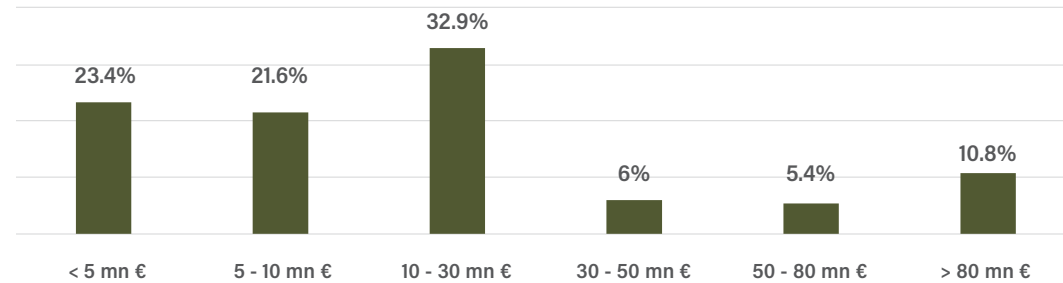
The sample under consideration, composed mainly of textile and garment companies, makes it clear that the Italian supply chain is small: 70% are under €30 million in turnover.

The assessment consisted of 125 questions covering companies' readiness in the implementation of sustainability management tools and processes: corporate and sustainability governance, environment (energy, emissions, water and waste, raw materials, products), human resources management, relationship with suppliers, stakeholder engagement.

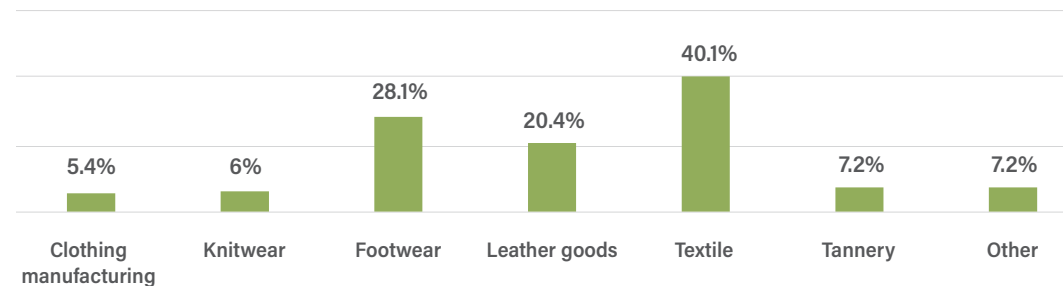
It is important to note that the companies that decided to participate in the assessment are those that are likely to feel more confident about the topic. If we extend these results to the entire universe of the Italian supply chain, the results should be "rounded down". In addition, the companies that responded to the questionnaire probably responded defensively, as they may have felt slightly under evaluation.



Sample of companies, by turnover



Sample of companies, by supply chain segment²



(1) The European House - Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain; (2) Total does not equal 100% as companies were able to select multiple options.

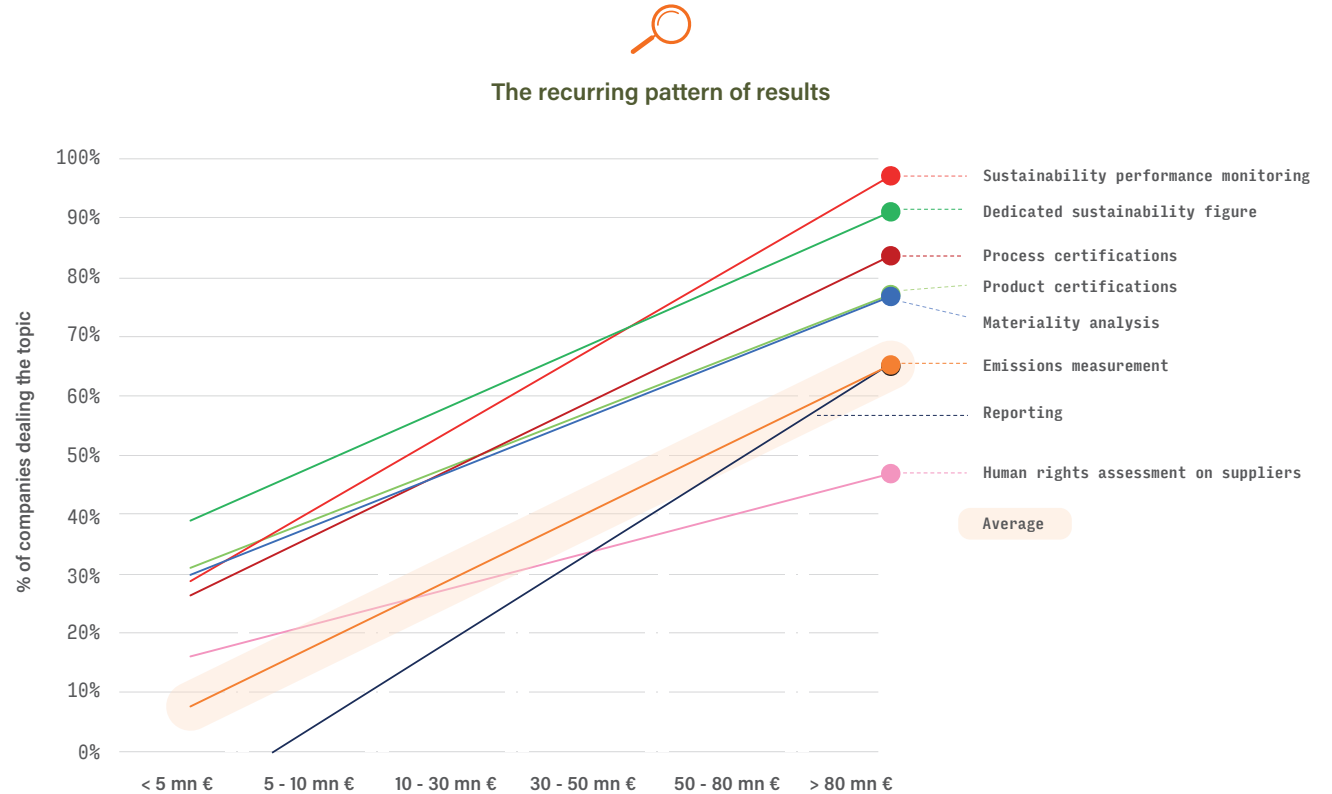
THE RECURRING PATTERN OF RESULTS: SUPPLY CHAIN COMPANIES' SIZE AND SUSTAINABILITY ARE DIRECTLY PROPORTIONAL

The direct proportionality of positive sustainability outcomes by size of enterprises can be summarized graphically as shown in the graph.

It is quite evident that as the size of companies increases, the presence of sustainability management tool follows proportionally.

On some issues, the impact of companies' size is even more evident, such as for reporting and emissions measurement, whose lines have a much steeper slope.

However, there are issues on which such differences are less pronounced. In fact, even for larger companies, less than 50% of the sample declares to have in place suppliers' human rights assessment.



49% OF SUPPLY CHAIN COMPANIES MEASURE THEIR PERFORMANCE, WHILE 18% PUBLISHES A SUSTAINABILITY REPORT

To best analyze the recurring pattern, take the two straight lines with the largest angular coefficient (with the most slope) as an example in analysis – sustainability performance monitoring and reporting.

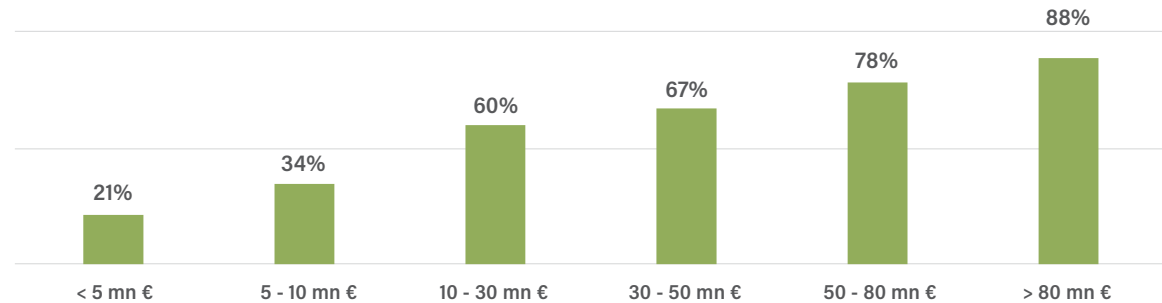
Within the sample, 54% of companies say they already measure their sustainability performances. The differences between small and large companies are clear and mirrored: measurement is almost directly proportional to size.

In the total sample, only 18.5% publish a sustainability report, making sustainability reporting the preserve of only the largest companies.

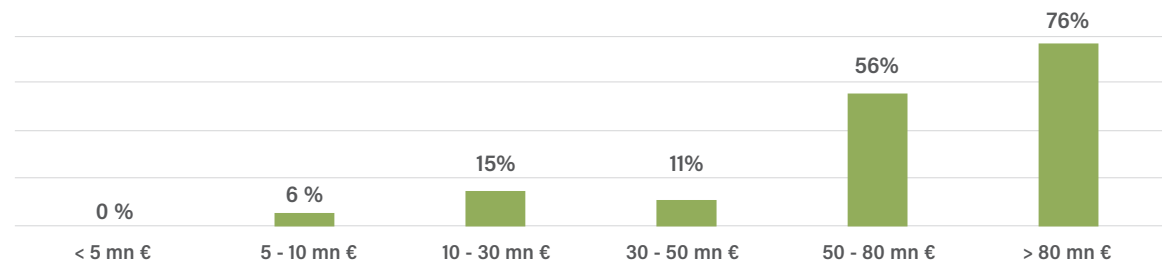
In fact, on average, among companies under €50 million in turnover, only 7% publish a sustainability report, and the share even drops to 0% among those under €5 million.



Companies monitoring their sustainability performance with appropriate quantitative indicators



Companies publishing a sustainability report



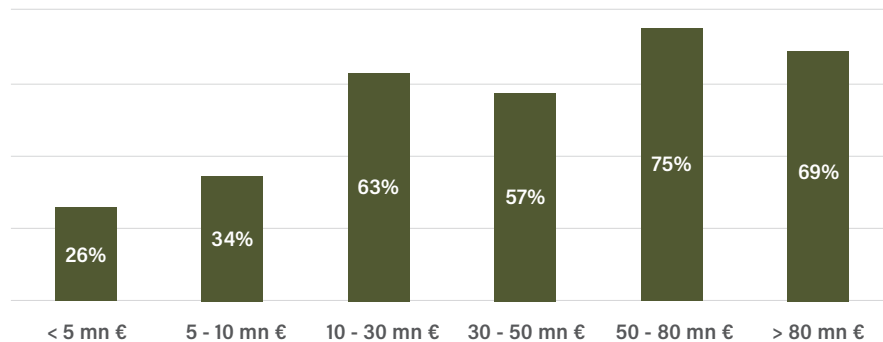
CERTIFICATIONS REDUCE THE GAP BETWEEN LARGE AND SMALL COMPANIES: 48% HAS OBTAINED RECOGNIZED CERTIFICATIONS

When it comes to product certifications, the supply chain proves to be somewhat more robust: almost half of the sample (48%) has obtained recognized certifications.

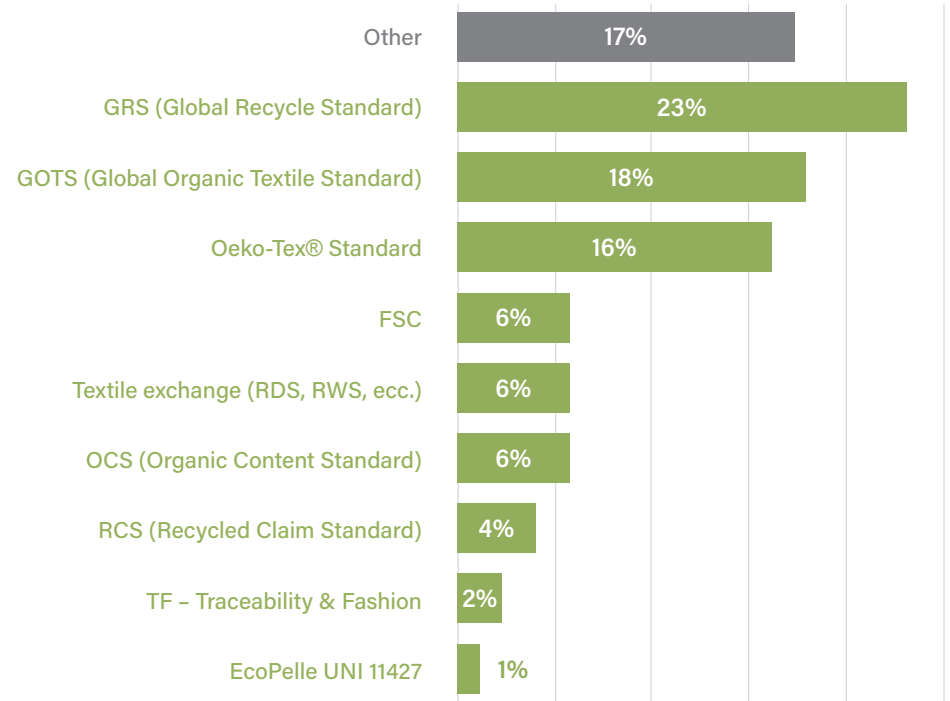
Again, the results show differences between large and small but with a smaller gap.



Companies that have obtained product certifications



Product certifications distribution



KEY MESSAGE

5.3

REGARDLESS OF SIZE, PRESSURE FOR SUPPLY
CHAIN COMPANIES COMES FROM BRANDS.
INSTITUTIONAL AND FINANCIAL PRESSURES
ARE NOT ACKNOWLEDGED AS RELEVANT.
SUPPLY CHAIN COMPANIES ARE REACTIVE
TO BRAND DEMANDS BUT NOT PROACTIVE
TO ANTICIPATE IT

BRANDS ARE PUSHING THE TRANSITION

Almost all supply chain actors declared to have perceived pressure from their customers to implement a sustainability strategy.

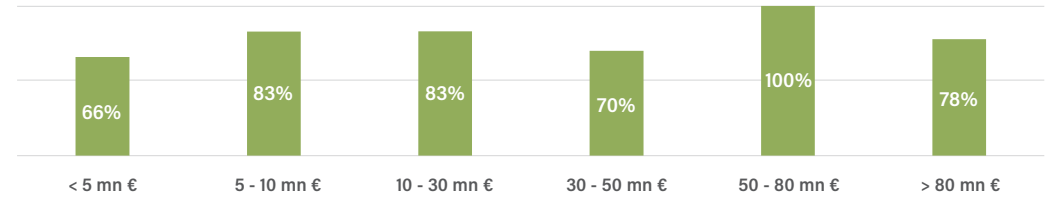
Being the analyzed sample composed of upstream actors, most of the customers exerting this pressure are actually the brands.

Specifically, 78.5% of the companies surveyed say they have received pressure, regardless of their size and reference supply chain.



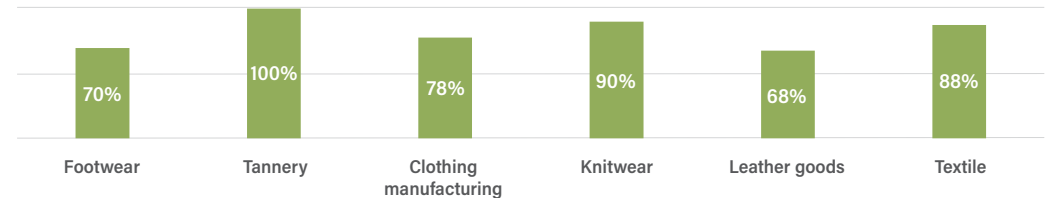
Companies that perceived external pressure from their customers to implement a sustainability strategy

By turnover



Companies that perceived external pressure from their customers to implement a sustainability strategy

By reference supply chain



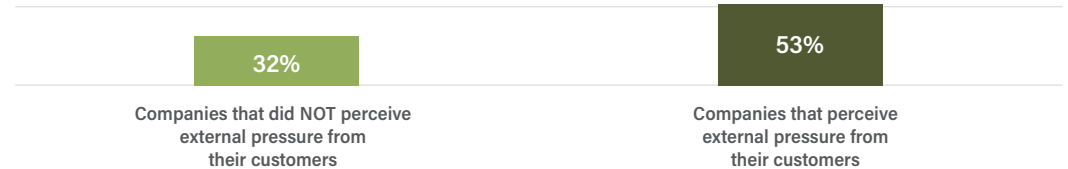
SUPPLY CHAIN COMPANIES, IMPELLED BY BRANDS, ARE INCREASINGLY MEASURING THEIR PERFORMANCES AND IMPLEMENTING CERTIFICATIONS

Companies that reported feeling pressure from brands to implement a sustainability strategy show that they are more active on the topic.

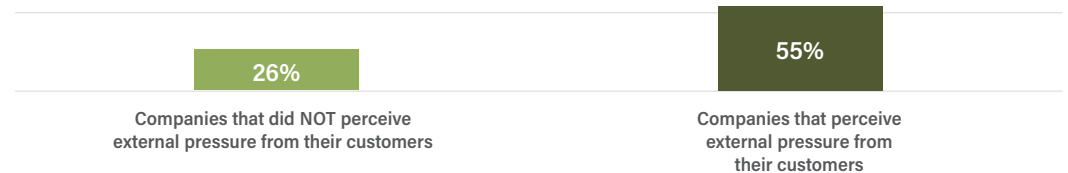
In fact, on both the certification and materiality analysis levels, having been pressured almost doubles the presidium on the topic.



**Companies that have obtained product or process certifications
- difference between those who have received and not received
pressure from their customers**



**Companies that conducted a materiality analysis to define priority
sustainability topics - difference between those who have received
and not received pressure from their customers**



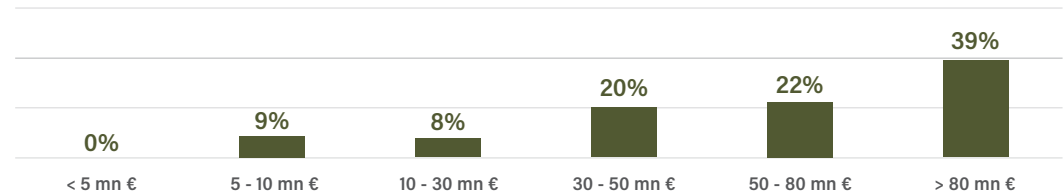
FINANCE IS RARELY FELT BY SUPPLY CHAIN COMPANIES AS A PRESSURE, BUT HAS THE POTENTIALITY TO INCREASE REPORTING RATES BY 3x

Financial pressure does not appear to be considered as a driving factor for sustainable transition, even for the largest companies.

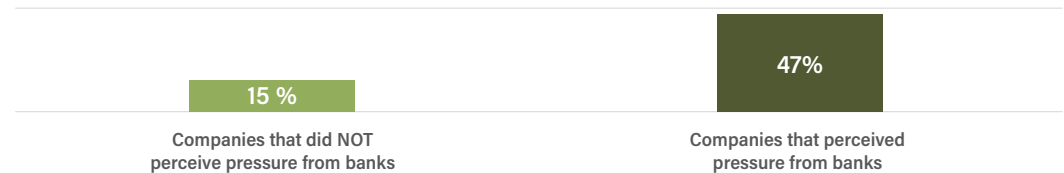
The only real push that financial pressure exerts is transmitted to reporting: having received pressure from banks triples the propensity to publish a sustainability report. In fact, among the companies in the sample that have received financial pressure, the share of those who publish a sustainability report rises to 47%.



Companies that perceived external pressure from banks to implement a sustainability strategy



Companies that publish a sustainability report - difference between those who have received and not received pressure from banks



KEY MESSAGE

5.4

THE LACK OF A STANDARD IS CONSIDERED
THE BIGGEST BARRIER TO TRANSITION BY
MOST COMPANIES, ACCORDING TO ALL SUPPLY
CHAIN ACTORS AND REGARDLESS OF SIZE

85% OF COMPANIES SEE IN A COMMON STANDARD A POTENTIAL BOOST TO SUSTAINABILITY, ESPECIALLY WHEN THEY ARE ALREADY MONITORING IT

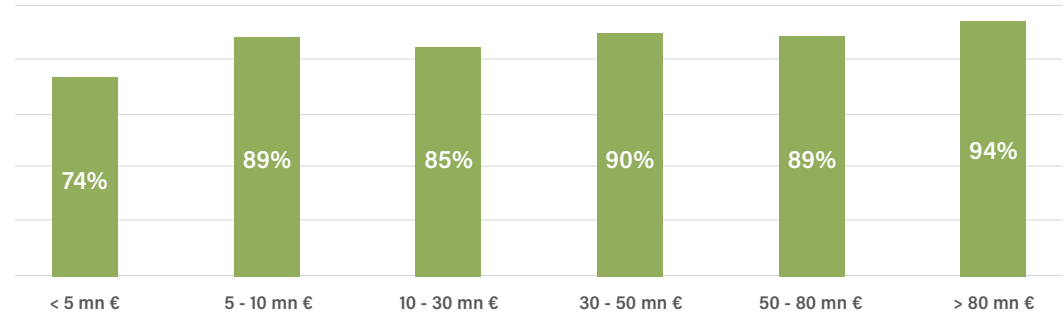
The need for standardized tools, such as audit templates or certification requirements, seems to be a cross-cutting demand among all supply chain companies - 85% of the sample agreed on this.

The percentage rises to 88% among companies that are already engaged in and making an effort to measure their sustainability performance.

In addition, even with some small differences, all companies in the supply chain, regardless of their size, believe they are ready for the sustainable transition: on average, 75% believe they have sufficient financial resources to cope with the change, and 86% believe they already have adequate in-house skills.



Companies that believe that the introduction of standardized tools to meet sustainability requirements could be a push to implement a sustainability strategy



Companies that believe that the introduction of standardized tools to meet sustainability requirements could be a push to implement a sustainability strategy - difference between those who monitor and not monitor their sustainability performance



6.

PROPOSALS FOR A GLOBAL JUST FASHION TRANSITION

I.

Anticipate market transition.

II.

Build multistakeholder task-forces led by national governments.

III.

Catalyse change through alliances.

IV.

Measure policy impact through minimum data for all.

V.

Promote a positive cultural shift.

VI.

Stimulate sustainability vanguard by Italian and French luxury value chains.



I. ANTICIPATE MARKET TRANSITION

WHY

The European Green Deal regulation aims at overcoming greenwashing also through new standardized measurement tools focused on processes and products which may push larger companies to act as a driver for the transition of the entire value chain. The effectiveness of such devices relies on the ability of the EU to define appropriate criteria and thresholds.

The lack of a standard is considered the biggest barrier to transition by most companies, according to all supply chain actors and regardless of size.

WHAT IT MEANS

To orient and focus the action of companies towards the adoption, also in advance, of the voluntary and mandatory instruments that the EU is developing as a global leader on sustainability, also with the aim of providing feedback and recommendations for improvement.

HOW TO ACT

- Stimulate and facilitate the adoption of guidelines and toolkits already under testing in order to verify their effectiveness on the one hand and, on the other hand, to provide feedback to refine them through a process of continuous improvement.
- Continuously update companies on the evolution of European policies and those of the main global institutions active on the subject.

TARGET

Companies worldwide and the whole value chain.

PERIMETER

Global.



II. BUILD MULTISTAKEHOLDER TASK-FORCES LED BY NATIONAL GOVERNMENTS

WHY

Institutions are playing a strategic role in the sustainable transition, especially in Europe. **Sustainability management is correlated to companies' dimensions.** Governments need a clear view on industry's risks and opportunities and to provide support mainly to smaller actors, that are the most numerous in the industry value chain.

WHAT IT MEANS

To act as a transition enabler, the government shall consult in a flexible manner with key industry players, NGOs, industry experts, finance and academia to define a road map to support the industry in its sustainable transformation by engaging stakeholders and by working towards targets to address national specificities.

HOW TO ACT

- Define a yearly agenda by identifying national priorities for a sustainable transition, participants and main lines of action.
- Direct public funding, towards SMEs, by seeking to play a partnership role with private financial institutions.
- Catalyze experiences developed at country level and bring them to the attention of the European Commission and multilateral bodies.

TARGET

Governments, brands' representatives (i.e. Camera Nazionale della Moda Italiana), upstream value chain representatives (i.e. SMI), financial system, industry experts.

PERIMETER

Europe, focus on countries with broad value chains.



III. CATALYSE CHANGE THROUGH ALLIANCES

WHY

Sustainability management is correlated to companies' dimensions. Certifications, ratings and clear targets stand to be key market levers to exert pressure for sustainable performances. However, they still seem not able to live up to their promises of transparency and standardization.

Circular business models are emerging but scalability is still far away, with different economic impacts heavily depending on the market segment.

WHAT IT MEANS

To foster alliances among all actors upstream and downstream the fashion supply chain, together with the financial sector, to disseminate good practices, but also to enable policy makers to make the best choices in the shortest possible time.

HOW TO ACT

- Create communities, either connected or independent, of purchasing, supply chain, innovation and sustainability managers to drive change together, also leveraging on innovation as a potential enabler.
- Build alliances to overcome barriers to financing innovation.
- Promote and encourage social procurement practices.

TARGET

Companies worldwide and the whole value chain, NGOs and philanthropy, financial system.

PERIMETER

Global.



IV. MEASURE POLICY IMPACT THROUGH MINIMUM DATA FOR ALL

WHY

The Fashion industry is part of a vicious circle between generated and suffered environmental impacts, despite **reliable and consistent data to quantify them are still missing.**

Fast fashion continues to grow as newer faster models acquire market share: fast fashion, social commerce and ultra fast fashion.

WHAT IT MEANS

To evaluate the effectiveness of policies and actions implemented, create an up-to-date database based on a small number of significant KPIs.

HOW TO ACT

- Create an observatory, also by engaging trade associations and already existing industry alliances, to collect, consolidate and summarise data the state of the art of the sector.
- Identify indicators, agree on calculation methodologies and start data collection: minimum wages, water consumption, chemicals, GHG emissions, recyclable sources.

TARGET

Companies worldwide and the whole value chain.

PERIMETER

Global.



V. PROMOTE A POSITIVE CULTURAL SHIFT

WHY

Circular business models are emerging but scalability is still far away, with different economic impacts heavily depending on the market segment.

People's awareness appears to grow, consumers are not willing to pay a premium price for sustainability.

WHAT IT MEANS

To leverage the communication potential of positive messages and experiences (i.e. events, concerts dedicated to both environmental and social issues) to engage consumers in a cultural shift and win their consumption habits by breaking the barrier between the intention of buying sustainable and the actions.

HOW TO ACT

- Integrate sustainability policies and tools into school and university programmes.
- Promote greater awareness of companies on sustainability issues, both environmental and social.
- Associate the attraction of young people to fashion and sustainability with events that through the universal message of music can spread greater awareness of responsible consumption.

TARGET

Brands, influencers, musicians.

PERIMETER

Global.



VI. STIMULATE SUSTAINABILITY VANGUARD BY ITALIAN AND FRENCH LUXURY VALUE CHAINS

WHY

The largest part of luxury supply chain is either in Italy or in France.

The Italian value chain is almost completely composed of small players. Despite difficulties in implementing sustainability tools, they represent a unique and strategic asset at global level.

WHAT IT MEANS

To create, within the Quirinale Pact, a joint table between Italy and France to make luxury not only a symbol of quality but also a front-runner that leads the direction of fashion's just transition by playing a key role with European and international institutions (e.g. OECD).

HOW TO ACT

Re-invest a fixed percentage of brands' margins, to be decided on a yearly basis, and channel public investments in innovation projects to promote the development of a sustainable supply chain and the scale-up of existing circular business models and best practices.

TARGET

Representatives from Italian and French governments, sustainability recognized leaders in the fashion industry.

PERIMETER

Italy and France.

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THE EUROPEAN HOUSE – AMBROSETTI

The European House - Ambrosetti is a leading Italian management consulting firm. Established in 1965, it is headquartered in Italy and with a network of foreign offices around the world.

15 years after the management buy-out, which settled the founder, The European House – Ambrosetti strengthened its international leadership and confirmed itself, for the eighth consecutive year, – in the “Best Private Think Tanks” category - the No. 1 Think Tank in Italy, No. 4 in the European Union and among the most respected and independent out of 11,175 Think Tanks globally, in the last edition of the “Global Go To Think Tank Index Report”.

The European House – Ambrosetti was recognized by Top Employers Institute as one of the 131 Top Employers 2022 in Italy.

The European House - Ambrosetti provides:

- Strategic and managerial consulting services.
- Creation of strategic scenarios and policy-making and advocacy activities (over 200 a year).
- Local development programs for regional governments and major local players (over 50 initiatives in the last 3 years).
- High-level training programs and political and entrepreneurial leadership forums (over 500 meetings a year involving over 3,000 experts from around the globe).



For more information please contact:
Carlo Cici - Partner & Head of Sustainability Practice - carlo.cici@ambrosetti.eu

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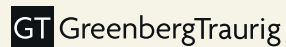
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