2ND EDITION

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JUST FASHION TRANSITION 2023

STUDY CONDUCTED BY **THE EUROPEAN HOUSE - AMBROSETTI**

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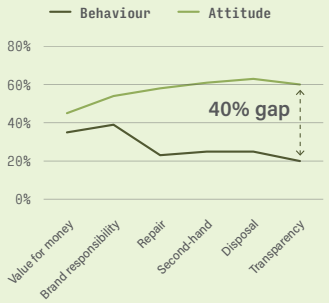
JUST FASHION TRANSITION 2023

FIVE TANGLES TO UNRAVEL THE JUST FASHION TRANSITION SCENARIO

1 CONSUMER AWARENESS, ATTITUDES AND BEHAVIORS ARE MISMATCHED

Awareness on the relevance of sustainability is rising. Yet, when it comes to purchasing, people don't put their choices where their mouth is: 60% of consumers values sustainability but returns 1 out of 3 items bought online, often doomed to be landfilled.

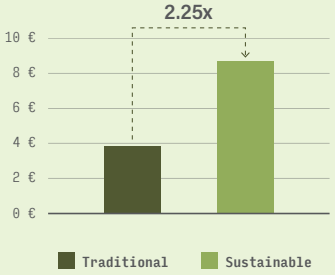
The attitude-behavior gap across sustainable purchasing decisions



2 HIGHER PRODUCTION COSTS AND EMPTIED PIGGY BANKS MAKE SUSTAINABILITY A MATTER OF MARGINS

Crafting sustainable garments seems to be over 2 times pricier than conventional ones. However, purchasing power is shrinking in EU – making the margins a key factor in determining the ability of companies to back up a sustainable shift in production.

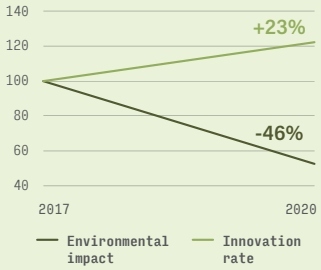
Traditional and sustainable T-Shirt production costs compared



3 THERE'S NO SUCH THING AS "THE MOST SUSTAINABLE FIBRE", BUT TECHNOLOGY SEEMS TO HELP

Environmental impacts of synthetic, artificial and natural fibres may vary a lot, according to the hotspot analyzed, making it hard to identify the most ecological. Yet, technology is emerging as a key ally in mitigating the footprint of products and processes.

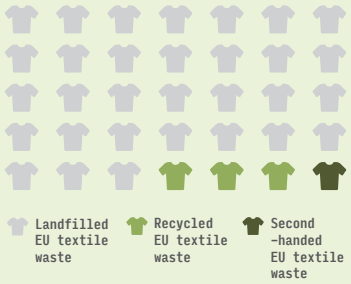
Environmental impacts and innovation rate in EU textiles



4 HASTE FOR WASTE URGES TO SCALE REUSE AND RECYCLING, OVERCOMING TECHNICAL BARRIERS

On average, every year in EU, out of 35 textile items discarded per capita, 3 get recycled and less than 1 is second-handed inside the borders, but each solution involves differentiated technical barriers and environmental impacts.

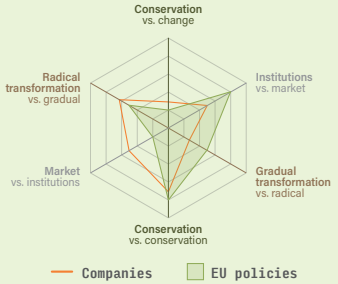
EU textile waste composition by end-of-life destination



5 INSTITUTIONS DRIVE SKETCHILY, EU IN THE LEAD, BUT ARE ITS LEVERS FIT TO TRIGGER MARKET POTENTIAL?

EU and US adopt divergent recipes to reach climate goals: regulations vs incentives. Sometimes, the just transition in EU fashion is erratic and new legislation poses significant burdens on companies, leaving critical issues unanswered and enforcement barriers unsolved.

Companies & EU policy approach to ESG transition compared

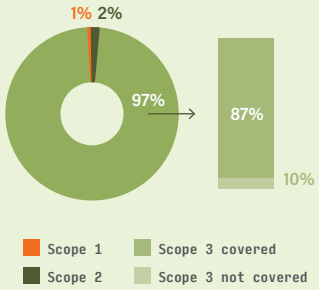


FIVE CORPORATE SHIFTS TO ACCELERATE THE JUST FASHION TRANSITION

1 IN THE GLOBAL INDUSTRY, CENTRE STAGE IS HELD BY CO_2 WHILE HUMAN RIGHTS STILL LAGS BEHIND

ESG pledges are spreading, with retailers leading their value chains thought challenging Scope 3 targets. Yet, emissions are rising and 10 years after Rana Plaza working conditions are deteriorating. This lack of transparency leads to increased ESG litigations.

Retailers' CO2 emissions, by coverage of climate targets



2 PERFORMANCE DATA ARE GATHERING, AND SO THE EU TOP 100 FASHIONS' WATCH BEGINS

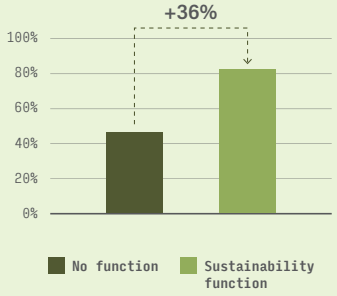
In one year only, EU largest fashion companies overall increased their sustainability oversight by 17%. Yet, the best-in-class among them only fulfils 70% of the ESG oversights maturity requirements, leaving topics such as biodiversity and water use behind.

Oversight progress among the EU Top 100 Fashion Companies

3 WITH GREAT POWER COMES GREAT RESPONSIBILITY (OR IS IT THE OTHER WAY AROUND?)

Among EU Top 100 Fashion, the firms with a dedicated Sustainability function have a 36% higher probability of maturely overseeing ESG topics compared to the others. Remuneration plays a key role too, with MBOs further driving disclosure and performances.

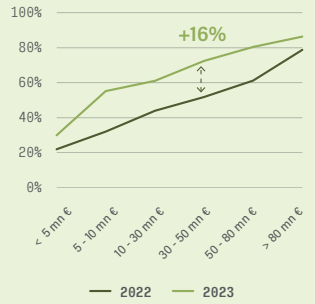
The sustainability function's influence on ESG oversight



4 SIZE STILL MATTERS FOR THE ITALIAN SUPPLY CHAIN, BUT GAINS ARE CLEARLY VISIBLE IN THE WHOLE INDUSTRY

ESG issues oversight and firm size remains proportional. Yet, companies in the Italian supply chain have improved by an average 16% year on year. Social issues are more closely overseen than environmental ones, while supply chain monitoring still lags behind.

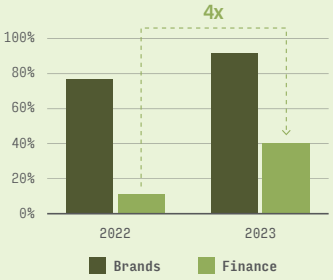
Italian supply chain ESG oversight annual improvement



5 BRANDS KEEP PUSHING FOR CHANGE, BUT THEY WON'T BE ALONE FOR LONG: THE AGE OF FINANCE IS COMING

Customer pressure seems to be the most compelling driver of the Just Fashion Transition in the supply chain, with 92% of Italian companies being urged to progress by brands. Finance too is gaining momentum, by pushing 4 times more companies than last year.

Firms sensing a push for change from brands and finance 2022-23



PROPOSALS FOR A GLOBAL JUST FASHION TRANSITION

I. Anticipate market transition.

By acting as transition enablers, consult in a flexible manner with key industry players, NGOs, industry experts, finance and academia in order to define roadmaps to support ESG transformation and working towards targets to address national specificities.

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

Orienting and focusing the action of companies towards the (early) adoption of the voluntary and mandatory instruments that the EU is developing as a global leader on sustainability, with the aim of providing feedback and recommendations for improvement, too.

III. Catalyse change through alliances.

Fostering alliances among all actors upstream and downstream the fashion supply chain, together with the financial sector and other actors of the value chain, to disseminate good practices, but also 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 and create an up-to-date database based on a small number of significant KPIs coherent with the upcoming European and global compliance requirements (ESRS and IFRS).

V. Promote a positive cultural shift.

Leveraging the communication potential of positive messages and experiences (i.e., events, concerts, etc.) 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 taken.

VI. Creating a sustainability vanguard led by IT & FR luxury value chains

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

VII. Making sustainable business choices more profitable

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

VIII. Promoting an integrated approach between recycling and reuse

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

JUST FASHION TRANSITION 2023: INDEX OF THE STUDY

INTRODUCTION

Just Fashion Transition 2023 is the strategic study developed by The European House-Ambrosetti as an annual observatory on the sustainable transition of key fashion sectors: clothing, footwear, and leather goods.

The study aims at serving as a true dashboard for decoding the challenges and opportunities concealed within the transition to sustainability of the fashion industry, and paving the way for future developments. To this end, the study includes an analysis over 2,700 Italian and European companies, a sustainability assessment of 374 supply chain companies, the evaluation of ESG (Environmental, Social, and Governance) performance of the top 100 European companies in the industry, a consultation with 21 sector experts, and policy intelligence conducted on the 32 regulatory instruments directly impacting the future of European fashion industry.

Just Fashion Transition 2023 provides an effective and evidence-based knowledge support to the *Venice Sustainable Fashion Forum*, a unique initiative brought to life through the joint efforts of three partners: Confindustria Veneto Est, The European House-Ambrosetti, and Sistema Moda Italia.

Now in its second edition, thanks to the support of 21 partners , the Forum represents the annual flagship event on Sustainability in the Fashion industry by featuring in-deep analyses of specific subjects, which are instrumental in shaping the future of the industry's sustainable transition. With the goal of providing the necessary elements to accelerate the sustainable transition of the industry, the Forum brings together companies across all stages of the supply chain in order to sort priorities among so many challenges, chart a mutually agreed-upon path of change, and initiate an effective transformation roadmap based on scientific and measurable evidence.

DIAMOND PARTNERS

PLATINUM PARTNERS

PARTNERS

DATA AVAILABILITY AND RELIABILITY

Since there's no standardized definition of «fashion industry», data collected and reported in this study may often have different scopes. Sometimes the industry is equated to a subset of products categories, such as apparel or textiles, thus leaving important products and processes out of the scope. Some other times, data aggregate product categories with overlapping scopes, resulting in overestimation.

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.

The benchmark analysis on large European companies exclusively relies on data obtained from publicly accessible sustainability and annual reports published online. Data collection concluded in early September, and no further updates have been incorporated. Certain data underwent mathematical manipulation for comparative purposes, but this did not affect validity.

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.

SOURCES AND ANALYSES THE STUDY COUNTS ON

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

374 supply chain companies assessed by a sustainability questionnaire

100 top European companies assessed on their sustainability oversight and performances

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

30 retailers analyzed

21 industry leaders interviewed

>150 articles , reports and database consulted

32 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:

- Stefano Albini | President, **Albini Group**
- Guido Alfani | General Manager, **Carbonsink - A South Pole Company**
- Nicolò Bellorini | VP/ Head of Business/ MX Division, **Samsung Electronics Italia**
- Karina Bolin | President, Humana People to People Italia **Institutions and NGOs**
- Ercole Botto Poala | CEO / President Confindustria Moda, **Successori Reda - Confindustria Moda**
- Corrado Brondi | Founder and CEO, **Give Back Beauty**
- Luca Canevelli | Sustainability Manager, **Valentino**
- Enrico Cantoni | Retail, Fashion and Industry Division Director, **Sopra Steria**
- Luca Cartocci | CEO, **LBS Luxury Brands services**
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- Alessandro Di Benedetto | Sales Manager Fashion & Luxury, **DNV**
- Camilla Di Fonzo | Associate, **Greenberg Traurig/ Santa Maria**
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- Luca Fresi | CEO, **Alperia Green Future**
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- Massimo Lolli | Sustainability Manager, **Ratti**
- Roberto Lombardi | International Senior Director Internal Audit & CSR, **Guess Europe**
- Marta Lualdi | Sustainability and Product Compliance Manager, **Versace**
- Giorgio Macarino | General Manager EMEA, **Chargeurs PCC**
- Livia Mazzoni | Sustainability Manager, **Valentino**
- Silvia Moretto | CEO, **DB Group**
- Liuba Napoli | Sustainability Manager, **Eurojersey**
- Federico Pellegatta | CEO, **Acimit Servizi**
- Maria Teresa Pisani | Head Sustainable Trade and Outreach Unit, **United Nations - Economic Commission for Europe (UNECE)**
- Rossella Ravagli | Sustainability Director, **Giorgio Armani**
- Patrizio Regis | ESG and Start Lab Italy Contact, **UniCredit**
- Serenella Sala | Acting Head of Unit, **European Commission Joint Research Centre Directorate D – Sustainable Resources Land Resources and Supply Chain Assessments Unit**
- Luca Sburlati | CEO, **Pattern Group**
- Mauro Scalia | Director Sustainable Businesses, **Euratex**
- Alex Zucchi | President, **Acimit**

DATA PARTNERS AND WORKING GROUP

Data partners

We would like to thank the brands and industry associations that helped us convey the questionnaire to analyze the state of the art of Fashion supply chains in dealing with Sustainability issues, 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, Confindustria Veneto Est, Confindustria Vicenza and Euratex** for circulating the questionnaire to their members; and **Giorgio Armani, Bottega Veneta, Gianni Versace and Valentino,** for involving their suppliers. Their contribution has been crucial to ensure the depiction of a solid and coherent picture of the Italian and European fashion supply chain.

In addition to this, we would like to thank the Bocconi University Master in Sustainability and Energy Management's group of students, led by Matteo Di Castelnuovo (Associate Professor of Practice, Sustainability) and that participated in the data analysis for chapter five's benchmark on the Top 100 fashion companies in Europe.

The student group was composed as follows:
- Lisa Chamberland
- Estelle Dubois
- Vishmitha Mandadi
- Louisa Monnet
- Daniela Valovicova

Working Group

The study has been developed by The European House – Ambrosetti. The Working Group has been led by **Carlo Cici (Partner & Head of Sustainability Practice)** and composed of:

- Elena Antiga | Professional – Global Fashion & Luxury Unit
- Carla Avanti | Analyst – Global Fashion & Luxury Unit
- Giulio Benelli | Analyst – Sustainability Practice
- Diana D'Isanto | Senior Professional – Sustainability Practice
- Adele Fusi | Professional – Sustainability Practice
- Enrico Lobietti | Analyst – Sustainability Practice
- Margherita Melazzini | Analyst – Sustainability Practice
- Alice Pescetti | Junior Professional – Sustainability Practice
- Roberto Polisano | Junior Professional – Global Fashion & Luxury Unit
- Matteo Rimini | Junior Professional – Sustainability Practice
- Flavio Sciuccati | Senior Partner, Industrial Strategy and Policy practice & Head of the Global Fashion & Luxury Unit
- Giorgia Severin | Analyst – Sustainability Practice
- Klarisa Stafa | Analyst – Sustainability Practice
- Emanuele Vismara | Analyst – Sustainability Practice

INTERVIEWS WITH INDUSTRY EXPERTS

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

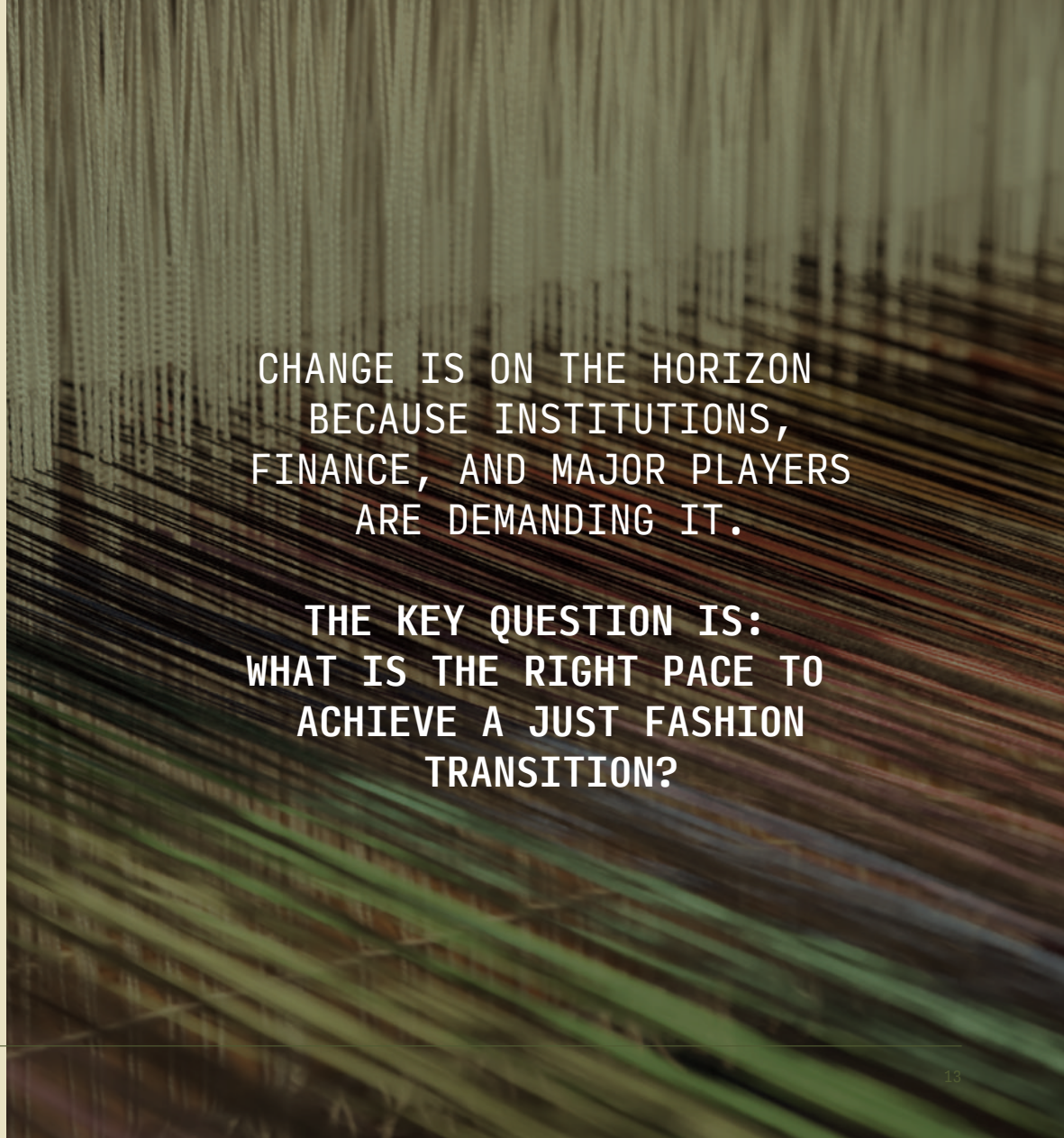
- Silvia Agnello | Sustainability Manager, **Sopra Steria**
- Guido Alfani | General Manager & Head, **Carbonsink - A South Pole Company**
- Sandy Black | Professor of Fashion and Textile Design and Technology, **Centre for Sustainable Fashion**
- Karina Bolin | President, **Humana People to People Italia**
- Ercole Botto Poala | President, **Confindustria Moda**
- Ghaemi Emerence | Senior Sustainability Manager, **Mytheresa**
- Alfio Fontana | CSR Manager & Corporate Partnership, **Humana People to People Italia**
- Alberto Fragoso | Senior Corporate Communications Manager, **Mytheresa**
- Fabio Iraldo | Professor of Management, **Scuola Sant'Anna di Pisa**, PhD in Innovation, Sustainability and Healthcare
- Sarah Kent | Chief Sustainability Correspondent, **Business of Fashion**
- Dorothy Lovell | Sector Lead, Garment and Footwear, **OECD Centre for Responsible Business Conduct**
- Ilaria Mantegazza | Sustainability Advisor and Key Account Manager Food & Fashion, **Carbonsink - A South Pole Company**
- Marco Midulla | Portfolio Manager, **Kairos Partners SGR**
- Federico Pellegatta | Secretary General, **ACIMIT - Associazione Costruttori Italiani di Macchinario per l'Industria Tessile**
- Maria Teresa Pisani | Head Sustainable Trade and Outreach Unit, **United Nations Economic Commission for Europe**
- Elisa Riva | Head of Marketing & Communication, Carbonsink - Senior Regional Marketing, **Carbonsink - A South Pole Company**
- Michael Sadowski | Consultant, **Freelance**
- Sanchita Banerjee Saxena | Executive Director, **Institute for South Asia Studies at University of California, Berkeley**
- Mauro Scalia | Director Sustainable Businesses, **Euratex - European Apparel and Textile Confederation**
- Richard Wielechowski | Senior Analyst, **Planet Tracker**
- Alex Zucchi | President, **ACIMIT - Associazione Costruttori Italiani di Macchinario per l'Industria Tessile**

GOALS OF THE STUDY

Providing a detailed and data-based **picture** of sustainability in fashion industry, by highlighting opportunities and challenges in the performance-driven third era of business sustainability integration.

Collecting and providing **unreleased data** and information on downstream and upstream supply chains.

Developing **recommendations** for institutions, companies and key players in the sector.



1.

THE FASHION INDUSTRY IN A CHANGING WORLD

KEY MESSAGE
1.1

In 2022, contrary to expectations, **the fashion industry suffered a setback in growth**, mainly due to inflation and the energy and raw materials crises that affected the whole value chain. In this contest, luxury has better resisted the impact of crises.

KEY MESSAGE
1.2

Past year's crises, combined with geopolitical instability, have **pushed companies to look for nearshoring**, a practice which brings out new players along the manufacturing value chain including Turkey, Eastern Europe, and North Africa.

KEY MESSAGE
1.3

Awareness on the relevance of sustainability and its "traps" is rising among **consumers**, but **there is a mismatch between their attitude, behaviour, and perception**, shown also by the prevalence of fast fashion purchases and the significant volume of returns.

KEY MESSAGE
1.1

IN 2022, CONTRARY TO EXPECTATIONS, **THE FASHION INDUSTRY SUFFERED A SETBACK IN GROWTH**, MAINLY DUE TO INFLATION AND THE ENERGY AND RAW MATERIALS CRISES THAT AFFECTED THE WHOLE VALUE CHAIN. IN THIS CONTEST, LUXURY HAS BETTER RESISTED THE IMPACT OF CRISES.

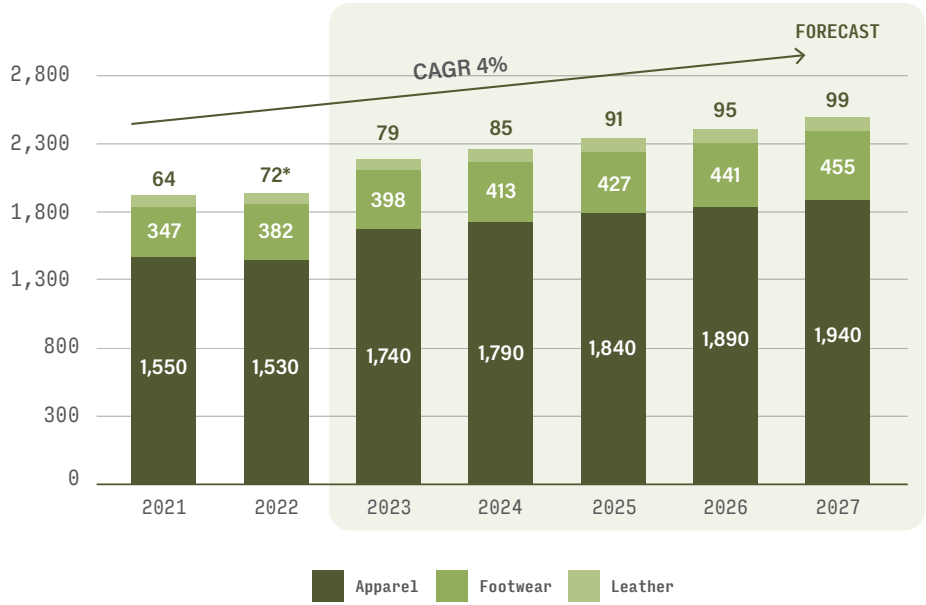
DESPITE EARLY 2022 FORECAST, FASHION MARKET SUFFERED A YEAR-END SETBACK

In 2022, global apparel market revenues were estimated at about $1.530 billion, down by 1.3% compared to 2021[1]. Footwear, on the other hand, grew by 10%. In 2023 the apparel market is expected to increase approximately by 13.7%[1].

The fashion market growth in 2022 might seemingly have been driven mainly by price increases and not by a proper rise in sales volumes. For this reason, the future scenario is uncertain: economic estimates predict growth by 2023, but industry experts suggest it cannot be ruled out that the industry may be facing a tighter market due to the order backlog that occurred in the post-pandemic recovery period[2].

Leather goods are experiencing strong growth worldwide despite the crisis period, with China and the U.S. being among the main outlet markets, with substantial spending forecasts[3].

Revenue in the Fashion market (billions $)[1,3]



*2022 leather data are estimated

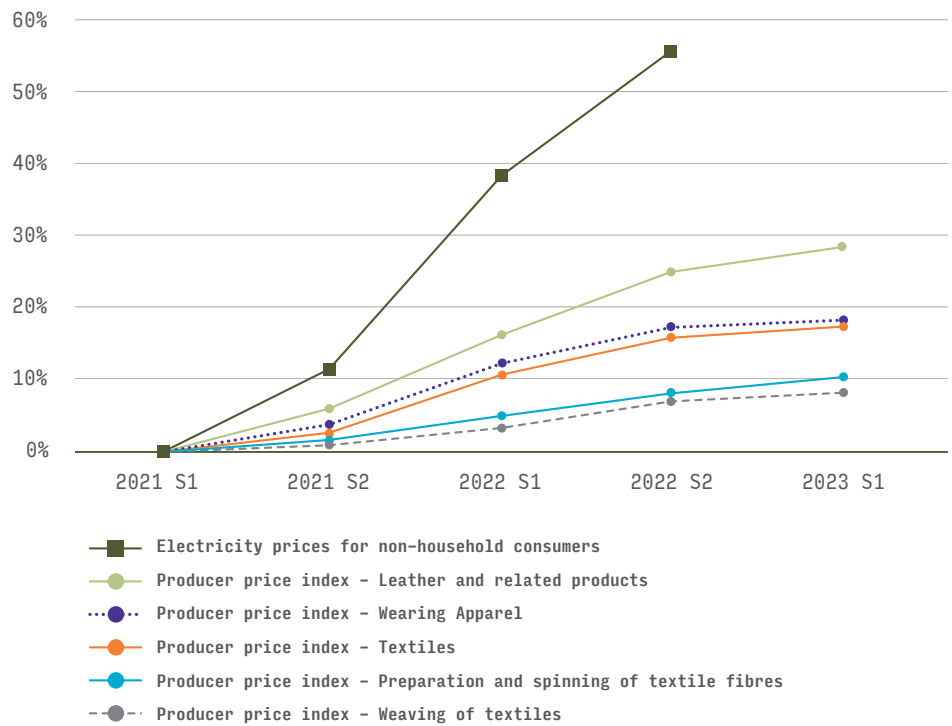
(1) The European House-Ambrosetti elaboration of Statista: Global apparel market - statistics & facts (2023); (2) The European House-Ambrosetti elaboration from internal interviews; (3) Business of Fashion, The New Era of Designer Bags: Redefining Leather Goods Report (2022)

IN 2022, THE PRICE OF ENERGY SOARED, BUT THE PRICES OF FASHION MANUFACTURERS INCREASED AT A MUCH LOWER RATE

Predicted as the year that would have marked the twilight of the Covid-19 crisis, 2022 instead ushered in a tumultuous phase for the fashion industry, driven by a cascade of unforeseen events. Beginning in 2021 Europe grappled with skyrocketing energy prices, a consequence of the pandemic's ripple effects, rising global demand, and heightened tensions from the Ukraine conflict. These pressures, amplified by adverse climatic conditions, have intensified the challenges confronting the fashion industry[1]. Geopolitical upheavals have deeply unsettled global commodity markets, plunging Europe into a profound energy crisis and subjecting both developed and emerging economies to steep prices for raw material imports[2].

Since early 2022, the surge in energy costs has escalated production costs in the textile sector. Countless small factories and workshops have had to cope with the changing business landscape, mainly due to soaring natural gas and electricity prices following the reduction of gas supplies from Russia. For many textile manufacturers, energy costs went from a mere 5% of production costs to an overwhelming 25%, reducing profit margins. While the crisis has reverberated through the entire supply chain, it particularly affected spinners, who consume a significant amount of power, and fabric dyers, reliant on gas-powered water tanks and industrial dryers3. Textile manufacturers, however, have struggled to pass these costs on to buyers, as they are often obliged to supply products at previously set prices months in advance. In addition, higher prices could push many fashion companies and retailers to relocate their operations outside Europe, where energy costs are potentially lower[3].

Electricity price for non household and Producer Price Index of the industry supply chain[3]



(1) Bcome, Sustainability Handbook for Resilient Fashion Business 2023 (2022); (2) The Wall Street Journal, Stacy Meichtry, Jenny Strasburg: Fashion Industry Gets Torn by Europe's Soaring Energy Bills (2022); (3) The European House-Ambrosetti elaboration of Eurostat data

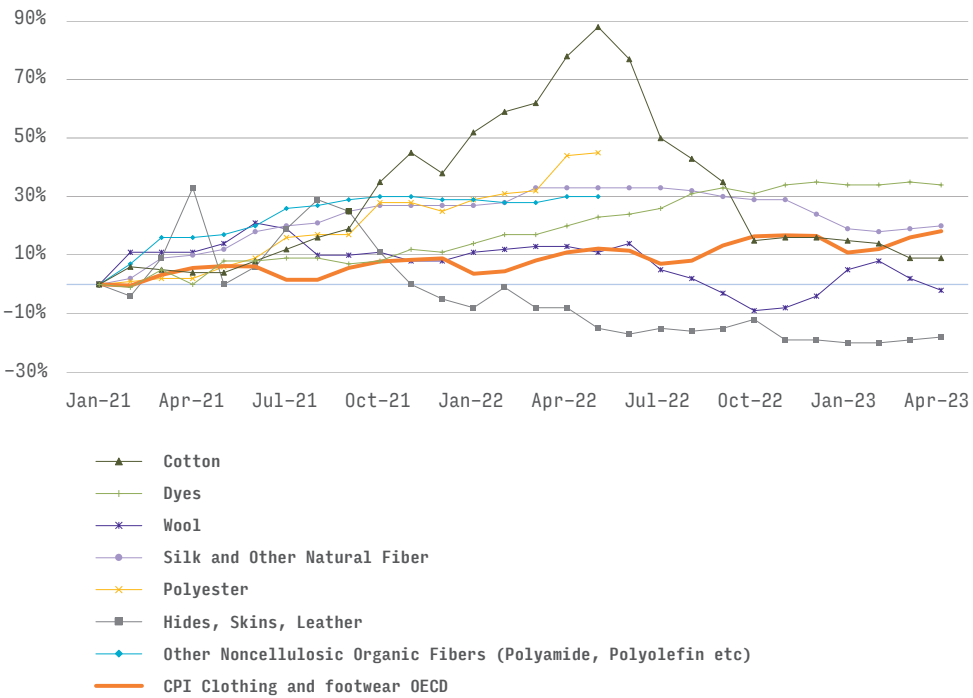
SAME DYNAMICS FOR RAW MATERIALS COSTS, BUT IN THE END PRICES TO CONSUMERS HAVE NOT BEEN AS PROPORTIONAL

The geopolitical instability and supply chain disruptions are major drivers of the rising cost of raw materials in the fashion industry[1]. In particular, in May 2022 prices of materials such as cotton or polyester increased by as much as 88% and 45% respectively[2], squeezing companies in the upstream part of the textile supply chain.

The luxury sector has weathered the crises better than other industry segments. By 2023 growth is expected to reach 9% to 14% in the Chinese market and 5% to 10% in the U.S. In Europe, it is facing significant challenges: exchange rates and the ongoing energy crisis are exerting significant pressure, resulting in more modest sales growth projections of between 3% and 8%[1].

While firms in the downstream value chain have seemingly strengthened their position, those upstream have suffered the most, falling into a weaker position compared to the pre-Covid situation. More specifically, to ensure that their profit margins remain high, high-premium/luxury brands have not accepted price increases in upstream products[3].

Price indices – raw materials and OECD consumers[4]



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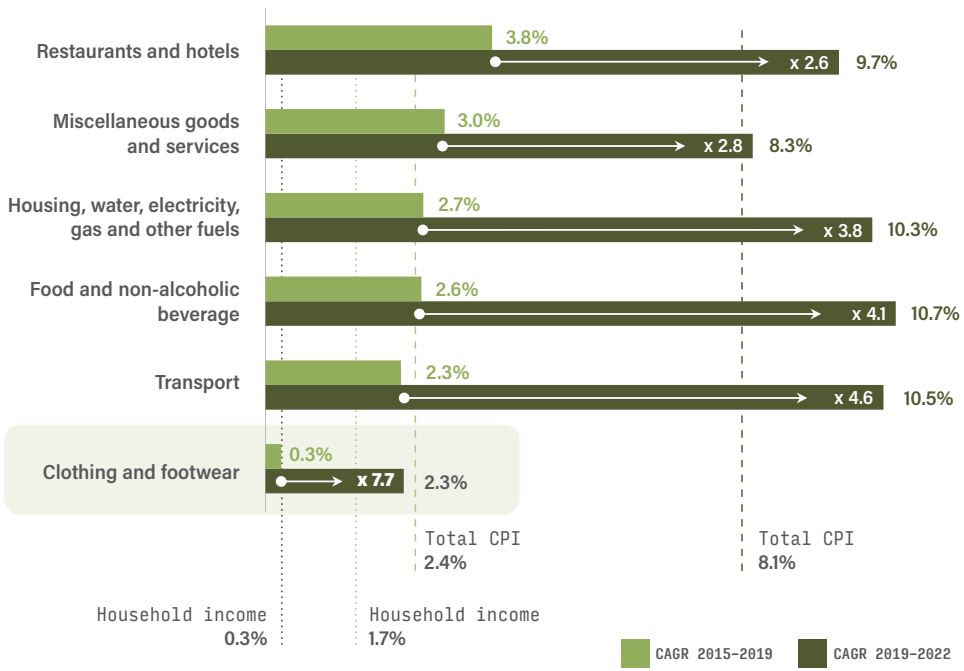
CONSUMER PRICE INDEX OF CLOTHING AND FOOTWEAR IS HISTORICALLY LOWER THAN OTHER PRODUCT CATEGORIES BUT WITH STRONGER GROWTH FROM 2019

Notably, the fashion market, with its characteristic economic rhythms, saw a delayed impact on the Consumer Price Index (CPI): in May 2022 the CPI increased by 12%, while in April 2023 by 16%[1].

Delving into historical data, this observation becomes even more pronounced when considering that the CPI value for clothing and footwear has traditionally been among the more restrained figures across product categories. However, from 2019 to 2022 the CPI of clothing and footwear grew about 7 times as much compared to other product categories – such as restaurants, housing goods, food and transports – across the 2015-2019 period. While this growth is remarkable, the index for clothing and footwear still remains below the overall average[2].

OECD Consumer Price Index for selected categories[2]



(1) The European House-Ambrosetti elaboration of Federal Reserve Bank of St. Louis and OECD data; (2) The European House-Ambrosetti elaboration of OECD data

KEY MESSAGE
1.2

PAST YEAR'S CRISES, COMBINED WITH GEOPOLITICAL INSTABILITY, **HAVE PUSHED COMPANIES TO LOOK FOR NEARSHORING**, A PRACTICE WHICH BRINGS OUT NEW PLAYERS ALONG THE MANUFACTURING VALUE CHAIN INCLUDING TURKEY, EASTERN EUROPE, AND NORTH AFRICA.

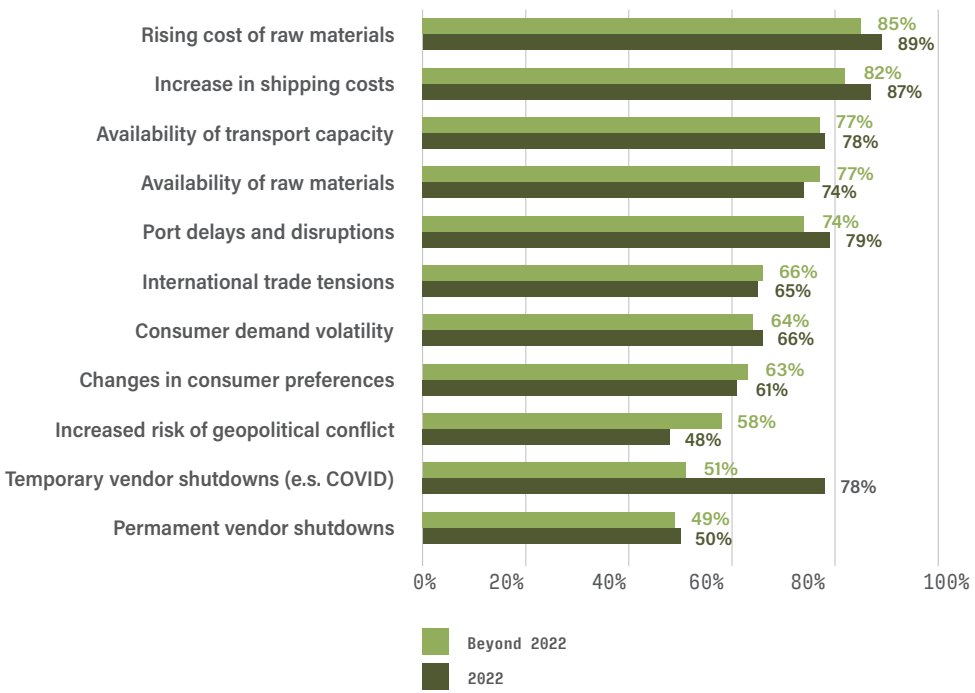
RISING COSTS OF RAW MATERIALS, TRANSPORTATION AND ENERGY CRISIS ARE CHALLENGING THE FASHION INDUSTRY'S GLOBAL SUPPLY CHAIN

Global supply chains are struggling with logistics challenges and persistent macroeconomic pressures[1]. The conflict in Ukraine has forced trade routes to be readjusted and led to an unprecedented energy crisis, while aging port infrastructure around the world is exacerbating transportation bottlenecks[1,2].

In addition, developing economies face the negative impacts of extreme weather events: in August 2022, Pakistan suffered devastating floods that caused hundreds of factories to close, women workers to be laid off, and extensive damage to cotton crops, with an estimated 45% washed away[1,3].

For these reasons, major fashion industry executives have identified supply chain disruptions as one of the main risks hampering the growth of the global economy in 2023[1]. Nearly one-third of global retail planning executives admit feeling ill-equipped for another major supply chain disruption. Some sources suggest bolstering resilience through increased investment in nearshoring, multi-shoring, and emerging technologies like generative AI[5].

Issues affecting the fashion supply chain landscape according to experts in 2022[4]



(1) McKinsey: The State of Fashion 2023 (2022); (2) Bcome, Sustainability Handbook for Resilient Fashion Business 2023 (2022); (3) The Guardian, Parveen Latif Ansari, Pakistan's textile industry is in crisis – and women are bearing the brunt of its decline (2023); (4) The European House-Ambrosetti elaboration of Statista, The Business of Fashion, YouGov (5) Vogue Business, Emily Seares, Is fashion ready for the next supply chain shock? (2023)

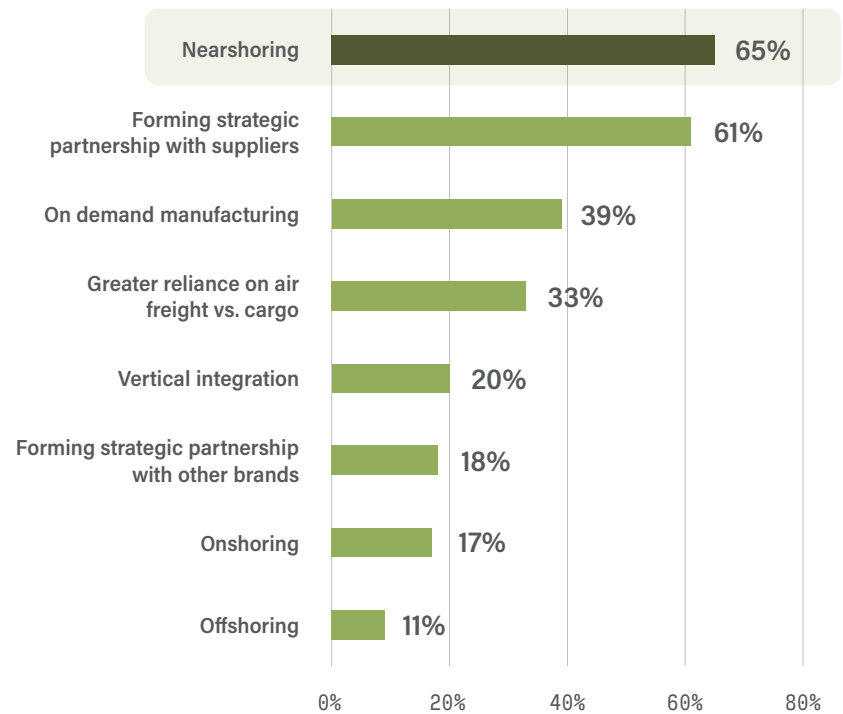
COMPANIES ARE HEADING TOWARD A PROCESS OF NEARSHORING, MOVING PRODUCTION CLOSER TO COUNTRIES NEAR THEIR SITES

Ongoing supply chain disruptions have emerged as a trigger for global manufacturing reconfiguration. To ensure greater stability and security in their procurement processes, fashion industry leaders are exploring a range of strategies, with nearshoring emerging as the foremost approach. This trend is echoed globally, as 65% of fashion executives view nearshoring as a pivotal strategy to address supply chain challenges[1]. This trend was already gaining momentum before the Covid pandemic but has since accelerated[2].

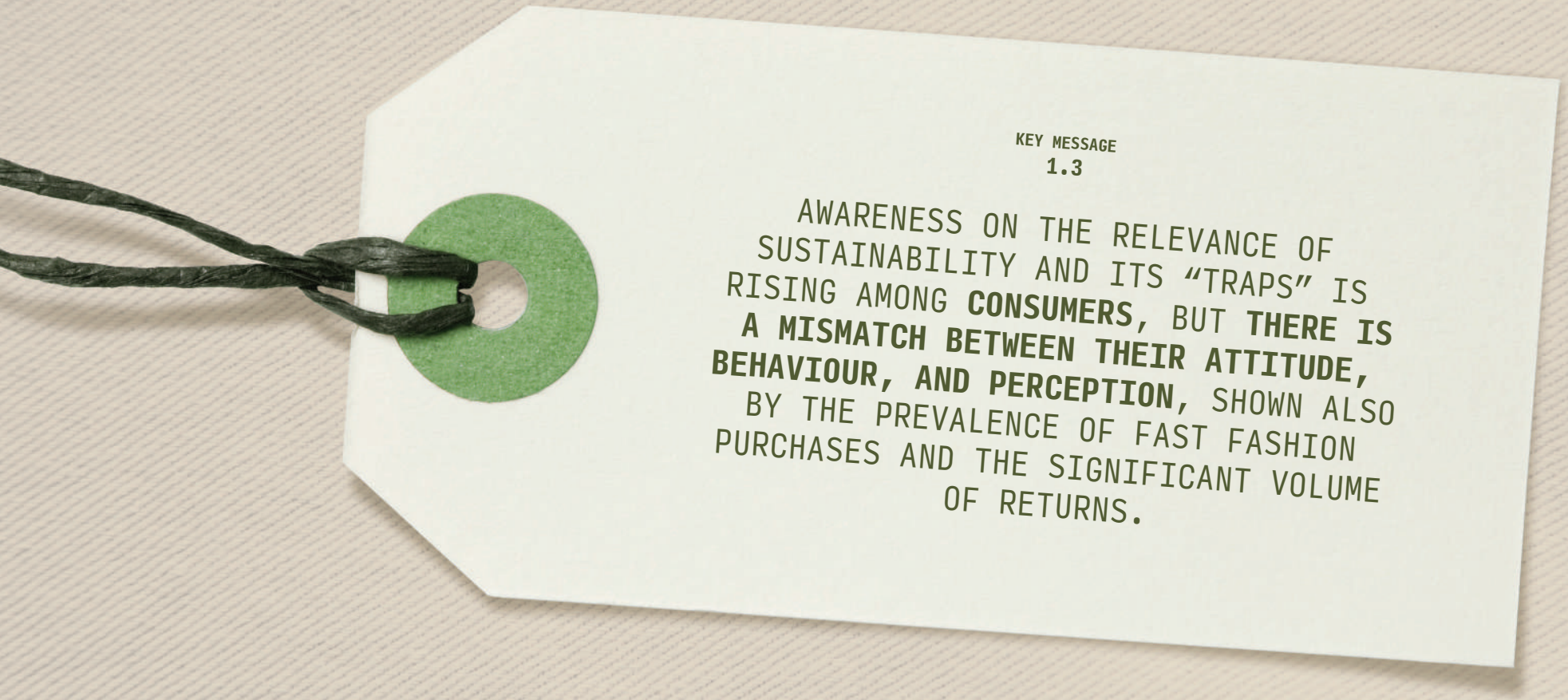
In addition to geopolitical tensions, several reasons underscore this choice. First, the pandemic has revealed the vulnerability of many suppliers, forcing brands to think about the fragilities of their supply chains. In addition, previously cost-effective manufacturing in Asia has seen this advantage eroded due to escalating transportation costs and growing uncertainties in post-Covid delivery times. The need to promptly respond to changing market needs has led many companies to view nearshoring as a means of bringing production closer to their target markets, reducing the time-to-market. Finally, bureaucratic complexity, which has always been a challenge for companies, has made nearshoring an even more attractive option, by offering the prospect of simplifying some of these processes[3].

Major apparel and footwear companies are hence redirecting their production to countries closer to their U.S. and European stores4. In Europe, Turkey is emerging as the preferred major hub due to its geographic proximity. In fact, 85% of Western European respondents said they intend to increase supplies from Turkey, followed by Eastern Europe and North Africa[1,5].

Strategies being considered to achieve greater supply chain security, % of respondents[1]



(1) McKinsey: The State of Fashion 2023 (2022); (2) Sole 24 ore, Giulia Crivelli, Tessile a rischio: con lo shock energetico produzioni verso la Turchia (2022); (3) The European House-Ambrosetti elaboration from internal interviews; (4) Reuters, Siddharth Cavale and Corina Pons, Retailers lose love for Asia: Snarled supply chains force manufacturing exodus to Balkans, LatAm (2021); (5) Assomac, The impact of the war in Ukraine on the European fashion industry (2022)



KEY MESSAGE
1.3

AWARENESS ON THE RELEVANCE OF SUSTAINABILITY AND ITS “TRAPS” IS RISING AMONG **CONSUMERS**, BUT **THERE IS A MISMATCH BETWEEN THEIR ATTITUDE, BEHAVIOUR, AND PERCEPTION**, SHOWN ALSO BY THE PREVALENCE OF FAST FASHION PURCHASES AND THE SIGNIFICANT VOLUME OF RETURNS.

23

CONSUMERS ATTITUDE TOWARDS TRANSPARENCY IN FASHION DOES NOT SEEM TO ALIGN WITH THEIR ACTUAL PURCHASING BEHAVIOR

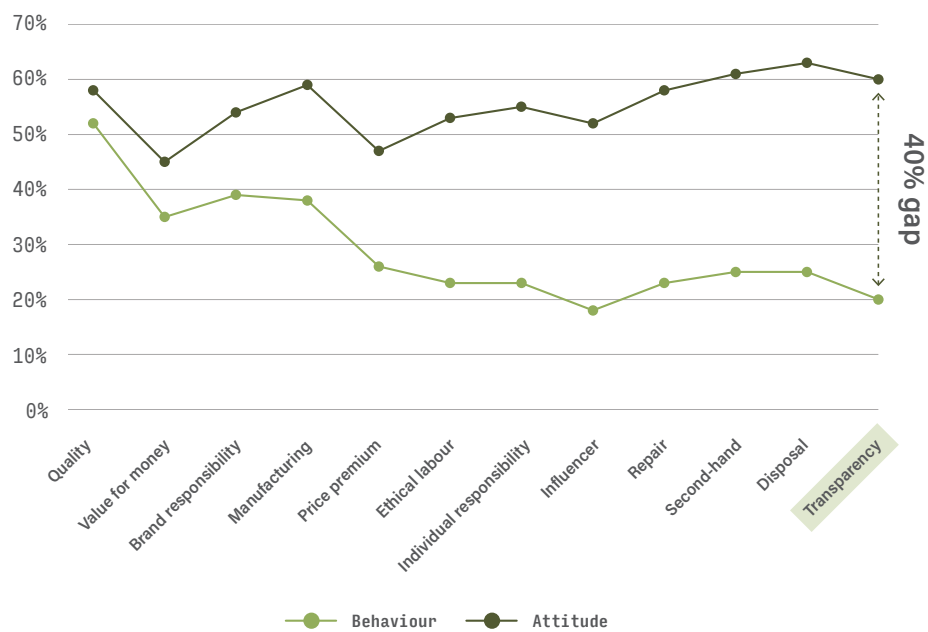
The attitude-behavior gap refers to the situation where individuals manifest certain attitudes but fail to put them into practice by implementing compliant behavior.

This phenomenon serves as the focal point of a study that examines how consumers approach 12 dimensions that influence their attitudes towards sustainability and fashion. These dimensions include quality, value for money, brand responsibility, manufacturing, price premium, ethical labor, individual responsibility, influencers, repair, second-hand, disposal, and transparency.

The survey involved 2,500 shoppers across France, Germany, Italy, Sweden and United Kingdom. It reveals that the gap between attitude and behavior varies depending on the specific sustainability dimension under consideration. For instance, in the case of quality and value for money, this gap is relatively small. Approximately 58% of respondents deem long-lasting quality as significant, with 52% indicating that they frequently shop with this factor in mind. Likewise, 45% give priority to value for money, and 35% admit to often opting for a cost-effective choice over a sustainable one.

The gap instead widens with regards to transparency, where 60% of respondents say that transparency is important to them, but only 20% seek information as part of the purchasing process.

The attitude-behavior gap across 12 dimensions of sustainable purchasing decisions[1]



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

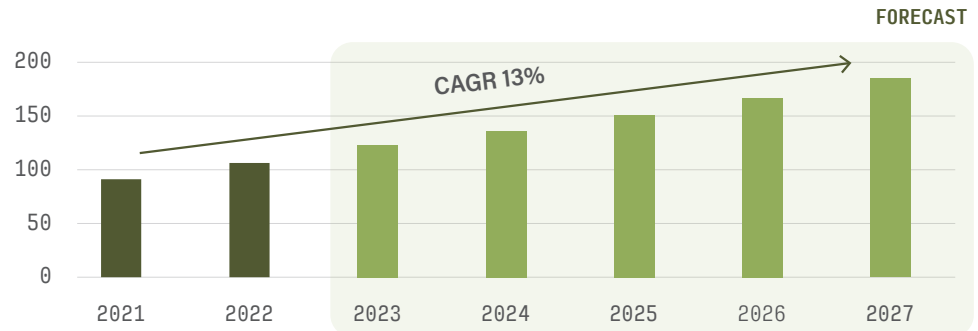
IN CONTINUITY WITH 2022 FORECAST, FAST FASHION IS EXPECTED TO GROW STEADILY, DRIVEN BY YOUTHS AND THEIR PREFERENCE FOR SOCIAL COMMERCE

The success of fast fashion helped double the size of the fashion industry between 2000 and 2014. In 2022, the fast fashion market (only the 3 main players) was estimated to be worth over 106 billion U.S. dollars, registering a 17% increase in revenue from 2021[1].

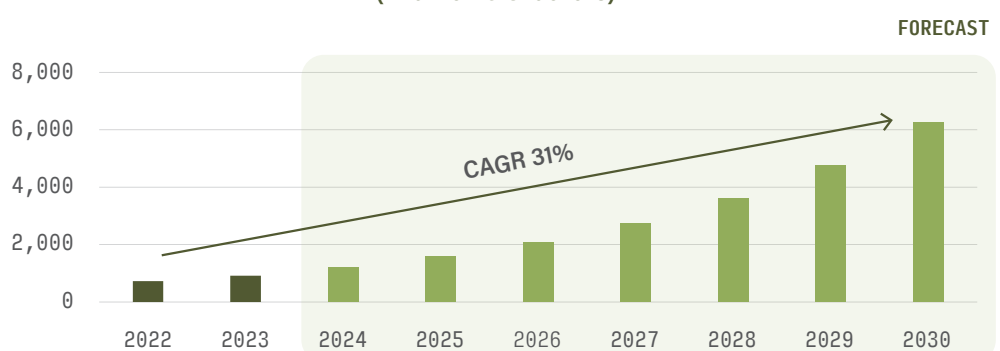
One of the main drivers for the industry's growth is the increasing penetration of social media. GenZ users who employ social media for shopping seek gratification through experiences deriving from social relationships, entertainment, and information[3].

Asian markets have experienced remarkable success in integrating social media and e-commerce, while the adoption of this trend has been slower in the West. In 2022, sales through social platforms exceeded $400 billion in China, whereas in the United States, they amounted to only $53 billion during the same period[4].

Fast Fashion apparel market size worldwide from 2022 to 2027 (in billion U.S. dollars)[1]



Social commerce revenue worldwide from 2022 to 2030 (in billion U.S. dollars)[2]



(1) The European House-Ambrosetti elaboration of Statista: Fast fashion market value forecast worldwide from 2022 to 2027 (2023); (2) The European House-Ambrosetti elaboration of Statista: Social commerce revenue worldwide from 2022 to 2030 (2023); (3) Siregar, Y., Kent, A., Peirson-Smith, A. and Guan, C., Disrupting the fashion retail journey: social media and GenZ's fashion consumption (2023); (4) M. Morris, Why Fashion Hasn't Given Up on Social Commerce (2023)

DATA ON PRODUCT RETURNS UNDERSCORE A LACK OF CONSUMERS' AWARENESS IN SUSTAINABLE PURCHASING DECISIONS AS WELL

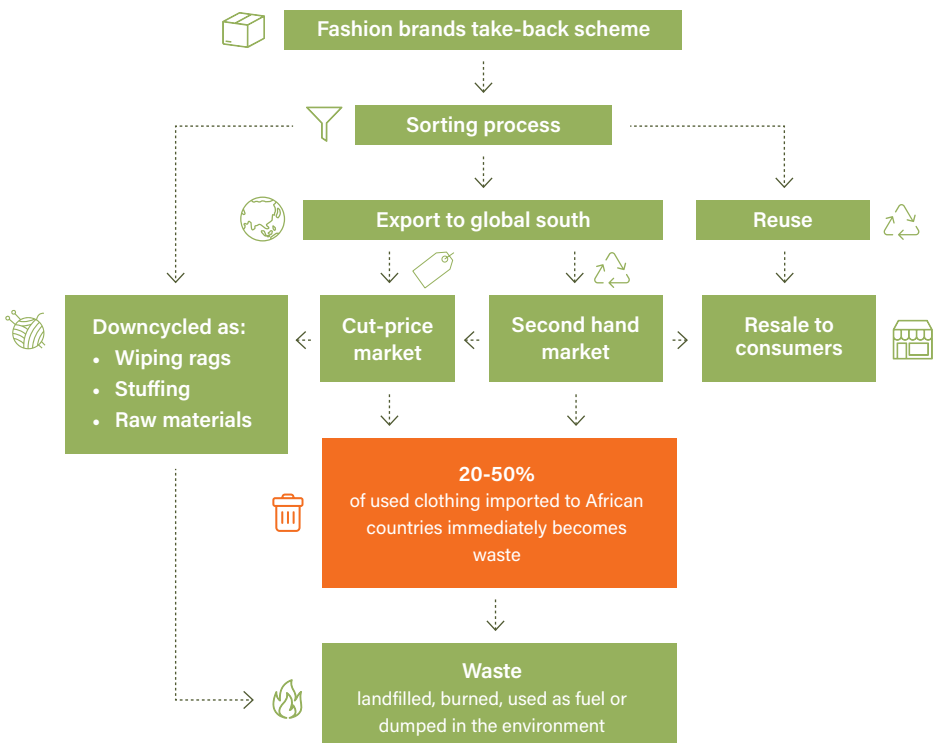
While 58% of consumers claim that having an impact on fashion sustainability is personally important to them, their behavior suggests otherwise[1]. Approximately 30% of online purchases are returned, with a significant portion ending up in landfills[2,3].

In recent years, as online shopping surged, so too have product returns across all categories, given birth to an entire industry focused on managing unwanted garments[3,4]. However, many consumers remain uninformed about the environmental repercussions of their returns: 70% of these returns are marked as "change of mind" by the consumer. Additionally, payment platforms that permit customers to settle their bills up to 30 days post-purchase, exacerbate the issue[3].

An investigation conducted from August 2022 to July 2023 tracked items submitted to take-back programs, segmenting the path of clothes into four distinct categories[5]:

- resold to consumers: items find a second life in a second-hand shop or with a customer on the same continent;
- downcycled: clothing is turned into lower-quality products like stuffing and raw materials, or destroyed;
- lost in limbo: garments are trapped in the global second-hand clothing trade, in warehouses, lost during transit or never departing their initial drop-off point;
- shipped to Africa: in the standard path following a return, 20-50% of used clothing imported to African countries immediately becomes waste.

What happens to clothing dropped at brands' take-back schemes[5]



(1) Zalando, Attitude-Behavior Gap Report (2021); (2) BBC Earth , Your brand new returns end up in landfill; (3) The Guardian, Buy. Return. Repeat: What really happens when we send back unwanted clothes? (2023); (4) The New Yorker, What Happens to All the Stuff We Return? (2023); (5) The European House-Ambrosetti elaboration of Changing markets, Tack-back trickery: an investigation into clothing take-back schemes (2023)

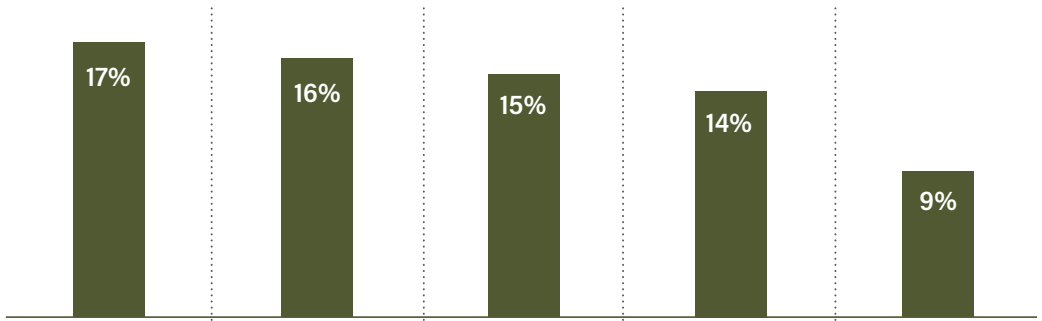
PRODUCT AVAILABILITY AND LACK OF INFORMATION ARE THE PRIMARY BARRIERS FOR SUSTAINABLE SHOPPING

Consumers across all age groups cite a lack of available options and limited sustainable collections as prime reasons why they seldom purchase sustainable clothing in their usual locations[1]. Younger shoppers also point to higher prices as a hindrance; indeed, those generations are also the leading consumers of fast fashion[2].

The limited knowledge of the subject stands out as an additional hurdle: in Europe, about 50% of people claim not to be sufficiently informed on the topic[3].

Moreover, distinguishing between sustainable and non-sustainable brands or products remains a significant obstacle for many and this challenge grows with the age group, with one-third of the Baby Boomer and Silent Generation (born in 1928-1945) struggling to find sustainability-related information. In contrast, only 20% of Gen Z and Millennials (Gen Y) expressed this concern[1].

Top 5 reasons for never or hardly ever buying sustainable products[1]



Ranking by generation	I struggle to find sustainable clothes where I usually shop	I don't know how to distinguish sustainable clothes from unsustainable ones	The assortment of sustainable clothes is too limited	Sustainable clothes usually cost too much	I just never considered buying sustainable clothes
Gen Z (1997–2012)	1	3	4	2	6
Millenials (1981–1996)	4	3	2	1	5
Gen X (1965–1980)	1	2	3	4	5

(1) Bain & Company, How Brands Can Embrace the Sustainable Fashion Opportunity (2022); (2) ThredUp, Gen Z Fast Fashion Report (2022); (3) Institut français de la mode, Fashion markets in Europe and the United States: towards sustainable consumption? (2019)

CONSUMERS CLAIM TO PRIORITIZE NATURAL TEXTILES AS THE MOST CRITICAL FACTOR WHEN ASSESSING THE SUSTAINABILITY OF CLOTHING…

Textile and apparel consumers are increasingly attuned to an intricate interplay of factors that influence their choices when it comes to acquiring clothing sustainably.

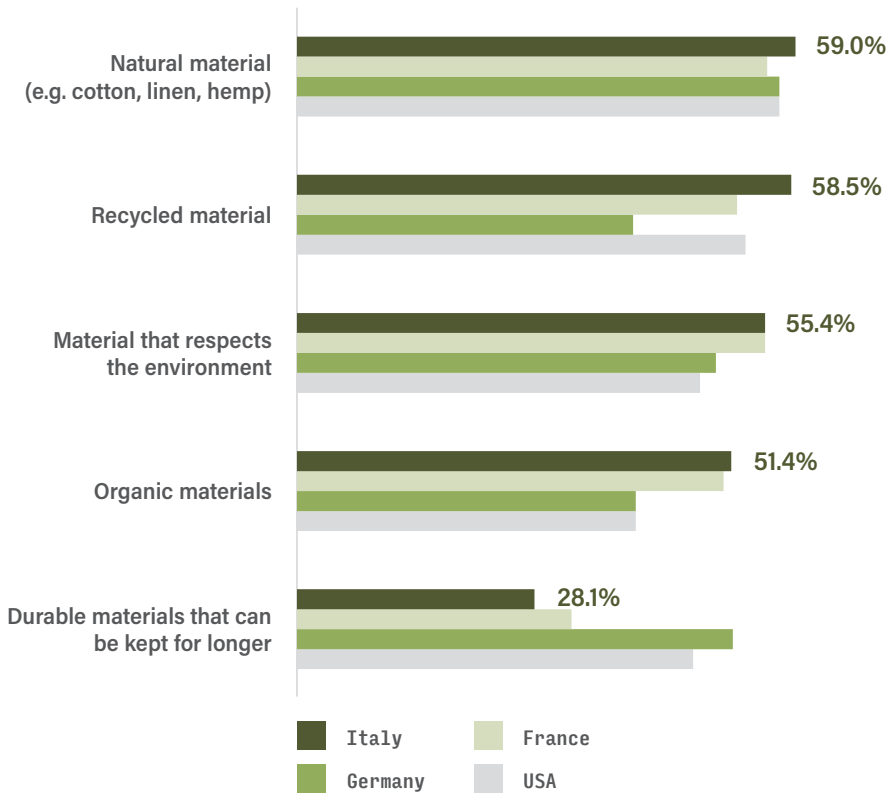
In a study that surveyed 5,000 consumers in France, Germany, Italy and the U.S., shoppers were asked about their consumption habits of eco-friendly fashion to gain deeper insights into their perspectives on the responsible fashion market, its offerings, and to unravel the intricacies of their purchasing motivations and the challenges they face.

In particular, when examining the preferences of Italian, French, German and US consumers, it appears that all 4 nationalities considered placing a clear emphasis on the use of natural fibers as the foremost criterion when evaluating whether a fashion item qualifies as sustainable.

Moreover, it's worth noting that there is a noticeable lack of attention given to the concept of durability, which represents the least popular criterion of choice among consumers in both Italy (28.1%) and France (32.5%).

This lack of focus on durability in consumer preferences is in stark contrast to the European Union's strong emphasis on durability as a crucial driver of sustainability in the fashion industry, as displayed by the recent developments of the Ecodesign for Sustainable Products Regulation.

Consumer perspectives about the fiber composition of fashion items required to consider them "sustainable" [1]



(1) Institut Francais de la Mode and Première Vision (2019)

„BUT APPEAR TO BE PARTICULARLY DISINFORMED ABOUT VEGAN ALTERNATIVES TO LEATHER'S COMPOSITION

In the past few years, manufacturers of vegan materials indeed gained significant momentum in the fashion industry. They were able to generate substantial media attention by positioning their products as ethical and sustainable alternatives to traditional leather. This marked a notable shift in consumer preferences and values, driven by concerns about animal welfare and environmental sustainability.

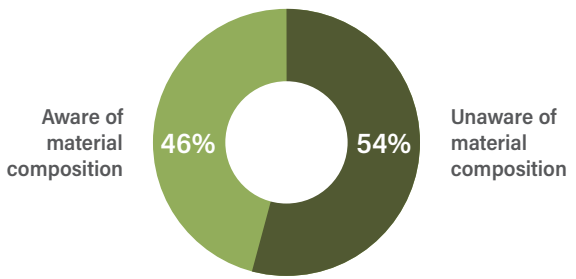
Recent studies have shown, for the first time, that vegan materials fall short of leather in terms of environmental performance due to their predominantly plastic composition[1].

However, it appears that the public perception of the sustainability of vegan leather alternatives does not align with this finding. This disparity in perception has been examined by a recent survey of 2,000 UK adults conducted by Atomic Research on behalf of Leather UK and Leather Naturally.

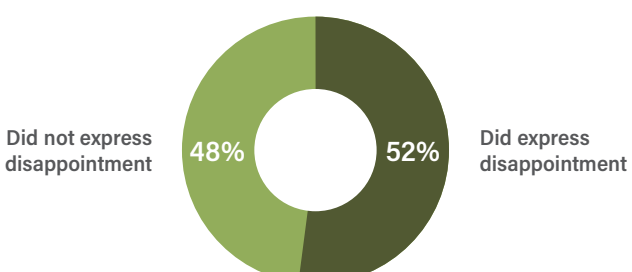
The findings portray an alarming level of confusion on the topics. When asked what is meant by the so-called "vegan leather", over half of respondents (54%) had no idea of the composition of this material and expressed disappointment when told that an item labelled as 'vegan leather' could potentially be 100% PVC or PU rather than made from "all natural" materials (52% of respondents)[2].

This widespread interest in clarifying this topic is reflected in the popularity of one of the studies investigating this issue, which to date has been consulted by over 26,000 readers[3].

Respondents on their level of awareness on "vegan leather" composition[2]



Respondents who display disappointment once informed that vegan alternatives to leather could be 100% PVC or PU[2]



(1) F. Carcione and others, Material Circularity: A Novel Method for Biobased Carbon Quantification of Leather, Artificial Leather, and Trendy Alternatives (2023); M. Meyer and others, Comparison of the Technical Performance of Leather, Artificial Leather, and Trendy Alternatives (2021); (2) Leather UK, Leather and the consumer (2022); Survey conducted on 2,000 UK adults; (3) M. Meyer and others, Comparison of the Technical Performance of Leather, Artificial Leather, and Trendy Alternatives (2021)

2.

NAVIGATING COMPLEXITIES: STUMBLING BLOCKS TO SYSTEMIC CHANGE

KEY MESSAGE
2.1

There is no such thing as the most sustainable fiber. However, technology is proving to be a key ally in mitigating the environmental footprint of products and processes.

KEY MESSAGE
2.2

Crafting Sustainable Garments seems to be over two times pricier than conventional ones. In a market where price continues to drive purchasing choices, the margins achieved by different business models is a likely key factor in determining the ability of companies to make a sustainable shift in production.

KEY MESSAGE
2.3

EU consumers discard 5.2 million tonnes of textiles each year. Recycling, and reuse are two levers for action, but each of them involves differentiated technical barriers and environmental impacts.

KEY MESSAGE
2.1

THERE IS NO SUCH THING AS THE MOST SUSTAINABLE FIBER. HOWEVER, TECHNOLOGY IS PROVING TO BE A KEY ALLY IN MITIGATING THE ENVIRONMENTAL FOOTPRINT OF PRODUCTS AND PROCESSES.

THERE IS NO "ENVIRONMENTALLY BETTER" TEXTILE, AS PLANT-BASED, SYNTHETIC AND ARTIFICIAL FIBRES IMPACTS DEPEND ON THE HOTSPOT INVOLVED

In terms of clothes and home textiles, synthetic fibers like polyester and nylon account for around 60% and 70%, respectively[1]. These fibers, often organic, use carbon-based polymers either synthesized or derived from nature. Regenerated cellulose, from natural polymers, turns man-made through chemical processing.

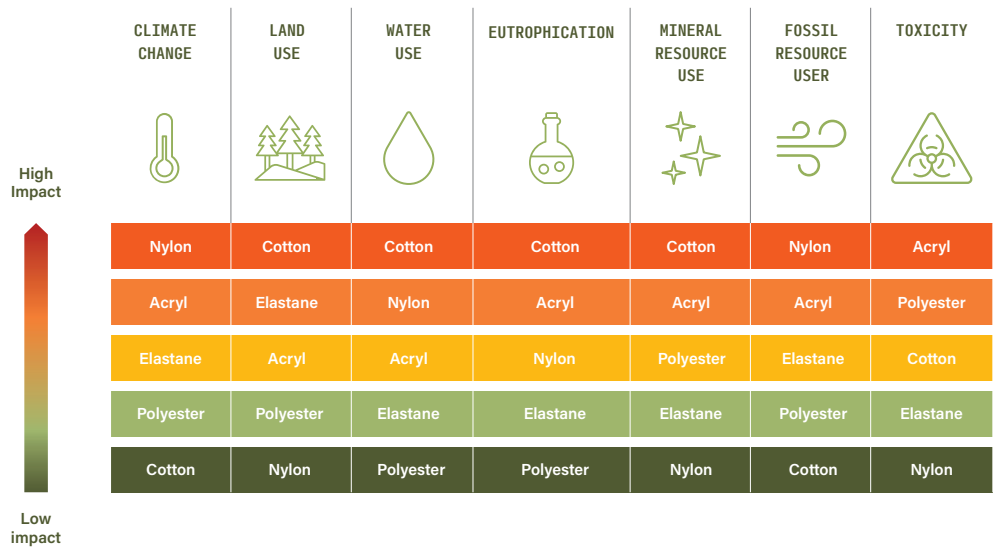
In the realm of textile manufacturing, when comparing fibers, major divergences among environmental and climate implications emerge.

While natural fibers are commonly perceived as more "eco-friendly" than synthetic or artificial ones, due to their renewable and biodegradable nature, a plant-based fiber such as cotton seems to be linked with higher environmental drawbacks in terms of resource use, such as land, water and minerals but also of ecosystems eutrophication due to the use of chemicals[1, 2].

Among synthetics, Nylon has the highest climate impact per kilogram produced due to fossil fuels utilization, while Polyester productive processes generally release more carbon dioxide.

Environmental effects also extend beyond production, including energy-intensive washing, drying, and ironing, which paradoxically prolong product lifespans but contribute to climate change. This highlights the complex interplay between sustainability and practicality.

Environmental impacts of producing 1 kg of dyed, woven fabric by textile fibre[1]



(1) European Environmental Agency, Plastic in textiles: towards a circular economy for synthetic textiles in Europe (2021); (2) European Environmental Agency, The role of bio-based textile fibres in a circular and sustainable textiles system (2023)

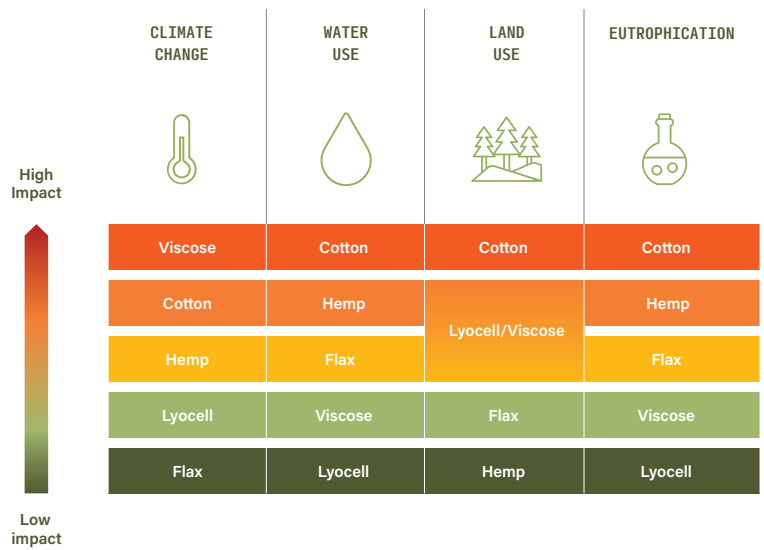
…EVEN AMONG MAN-MADE CELLULOSIC FIBERS, MOST RECENT ANALYSIS SHOW THAT IMPACTS MAY VARY SIGNIFICANTLY ACCORDING TO THE HOTSPOT

Man-made natural textile fibers, which encompass both animal-based fibers like silk and wool, as well as plant-based fibers such as cotton, linen, hemp, are derived from natural resources. Among plant-based fibers, cellulosic ones primarily originate from cellulose, which makes up a significant portion of plant matter and stands as the most abundant polymer in the world of plants. It is this cellulose that provides the foundational structure for the fibers derived from plants, offering both strength and flexibility[1, 2].

The impact of Man-Made Cellulosic Fibers (MMCFs) depends on a multitude of factors: it hinges on the source of wood pulp, on the chemicals employed in production, on the land use associated with cultivation, and on the energy consumption throughout the manufacturing process. The wide-ranging practices across different MMCF producers underscore the crucial role that sourcing and production methods play in determining the overall environmental performance of textile fibers.

Intricate trade-offs emerge when comparing these natural textile fibers, too: hemp and flax, for example, seem to represent more environmentally responsible options than cotton, demanding fewer fertilizers. However, they do come with their own set of challenges, notably requiring more extensive processing, such as degumming, which can be water-intensive.

Environmental impacts of producing 1 kg of dyed, woven fabric by MMCF[1]



(1) European Environmental Agency, Plastic in textiles: towards a circular economy for synthetic textiles in Europe (2021); (2) European Environmental Agency, The role of bio-based textile fibres in a circular and sustainable textiles system (2023)

ORGANIC COTTON ENVIRONMENTALLY OUTPERFORMS THE TRADITIONAL ONE, BUT ITS CULTIVATION REQUIRES 3.5 TIMES MORE LAND

Climate change poses challenges to cotton-growing regions, with rising temperatures, extreme weather events, and water scarcity impacting fiber production. By 2040, an extreme scenario could affect nearly 50% of cotton-growing areas, threatening global supply chains and local economies[1,2].

However, cotton is not only vulnerable to the effects of climate change, it also exerts its own environmental impacts, creating a vicious cycle. Indeed, the production of conventional cotton requires significant quantities of water, fertilizers, pesticides, and energy, leading to adverse effects on both the environment – such as soil erosion and degradation - and human health, because of water or soil contamination[3].

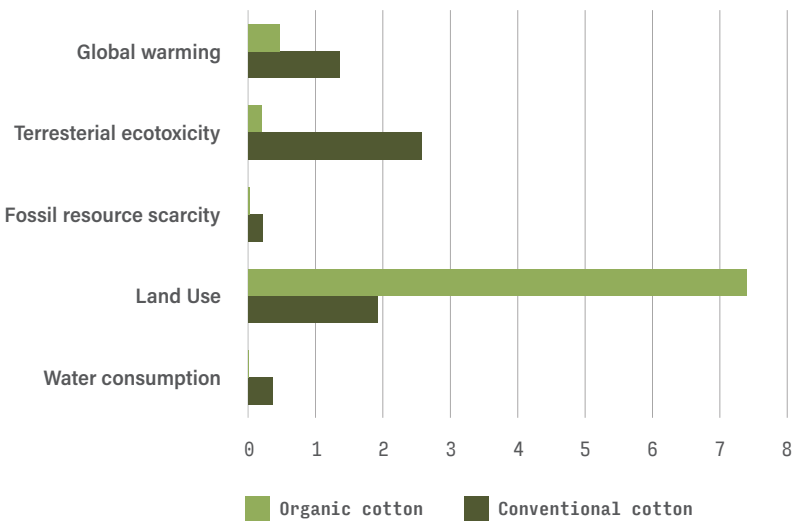
Notably, 98.37% of textile agricultural land use is directly linked to fibers cultivation, with raw cotton accounting for over 96.53% of the overall impacts of the industry[3].

Organic cotton is certified by third-party organizations and grown without toxic pesticides, synthetic fertilizers, or genetically engineered seeds, meeting strict federal regulations[4]. LCA analysis shows that organic cotton cultivation seems to outperform conventional cotton across almost all environmental impact categories, since the latter is grown without chemical inputs such as fertilizers, herbicides, insecticides, growth regulator or stimulators, boll openers, or defoliants.

This also leads to a minor impact in the aquatic eutrophication potential, as well as an overall minor Global Warming Potential (GWP)[3].

The only category in which organic cotton performs worse than conventional cotton is land use. Indeed, to produce 1 kg of fibers, organic cotton seeds requires 3.5 times more land than the regular ones[3].

Environmental impacts of organic cotton and conventional cotton production compared (normalized 1-10)[1]



(1) Copernicus, The impact of climate change on the cotton industry (2023); (2) International Institute for Sustainable Production, Cotton prices and sustainability (2023); (3) The European House – Ambrosetti Elaboration on Gonzalez V. et al. "Evaluating Environmental Impact of Natural and Synthetic Fibers: A Life Cycle Assessment Approach" Data (2023); (4) Organic Cotton Plus, What is Organic Cotton?

LEATHER INDUSTRY EXERTS PRESSURE ON BIODIVERSITY, BUT STILL LIMITED COMMITMENTS HAVE BEEN UNDERTAKEN BY GLOBAL PLAYERS

Animal hide that has been dehaired, treated, and finished with a particular color is called leather. After this process, producers employ leather to create garments, accessories, interiors, and automotive upholstery, with footwear serving as the principal purpose[1].

The majority of leather is produced by cattle, primarily cows, but also sheep and goats. In 2020, globally about 1.4 billion animals' hides and skins were used to make leather[2].

This material is known to be one of the least contributors to waste generation among the fashion value chain, thanks to its ability to create synergies with the meat and dairy industry; yet it is closely linked to other significant environmental impacts[1].

Overall, today, the livestock sector is responsible for approximately 11.2% of the annual global CO_2 emissions[3]. Though it is challenging to trace back the exact amount to the meat or the leather industry, the PEFCR valid until 2020, acknowledged as allocation rule that Fresh meat and edible offal should account for over 92% of livestock environmental impacts, while leather industry should generally account for only 0.1%-0.8% depending on the type of livestock considered[4].

Being a highly livestock-dependent industry, the key environmental challenge for the sector lies in the necessary deforestation, to obtain the space required for livestock farming. Yet, among the 21 global leather product brands and retailers that wield considerable influence over such matter, only 28% have taken concrete steps to define their public commitments against deforestation, and 33% have chosen to transparently report on their progress[5].

Hazards of leather industry on biodiversity[5,6]

DEFORESTATION:

driven by extensive land use, harms forests, especially the Amazon rainforest, where livestock is responsible for 70% of deforestation.

ALTERATION OF CARBON CAPTURE ECOSYSTEM SERVICES:

due to the degradation of ecosystems that may limit their capacity to capture and store carbon dioxide.

WATER AND LAND POLLUTION:

tannery wastewater causes chromium pollution in developing countries, and the livestock sector leads to eutrophication, dead zones, and coastal degradation.

(1) Common Objective, Fibre Briefing: Leather (2021); (2) Textile Exchange, Preferred Fiber & Materials Market Report (2021); (3) FAO, Gleam Dashboard on Global Emissions from livestock in 2015 (2023); (4) Product environmental footprint category rules Leather, Final version of 25 April 2018 (Valid until 31 December 2020); (4) Forest 500, Annual report (2022); (5) Mongbay, Amazon Destruction, (2021); (6) The European House - Ambrosetti elaboration on IUCN NGO Member Natural Resources Defense Council's analysis of the apparel sector (2015)

IN EU, TEXTILES ARE THE TOP 5 OUT OF THE 12 MOST IMPACTFUL CONSUMER DOMAINS, BUT EXTERNALITIES MOSTLY FALL OUTSIDE THE BORDERS

In 2020, the EU-27 produced 6.9 million tonnes of finished textile products, specializing in carpets, household textiles, and other textiles[1].

The sector is labor-intensive, employing nearly 13 million workers globally Europe is a major importer and exporter of textiles, importing 8.7 million tonnes.

The production and consumption of textiles exert significant environmental impacts. Textile-related activities in the EU led to 121 million tonnes of CO_2eq emissions in 2020, making textiles the fifth largest household contributor to climate change. Most of these emissions (52%) have been generated outside Europe, mainly in key textile-producing regions in Asia.

In the same year, EU households utilized 175 million tonnes of primary raw materials for textiles, with 80% sourced outside Europe.

Moreover, textile production consumed 4,000 million m^3 of blue water, 20,000 million m^3 of green water in 2020, and occupied 180,000 km^2 of land in 2020, equivalent to 400m^2 per person. Only 8% of this land use occurred within Europe, emphasizing the sector's global land impact.

EU-27 household textile consumption annual environmental impacts per capita, inside or outside EU-27 (EU-27 vs. Non-EU, 2020)[1]

(1) The European House - Ambrosetti elaboration on European Environmental Agency, Textiles and the environment: the role of design in Europe's circular economy (2023); Eurostat Exiobase database (2020); European Parliament, Textiles and Environment (2022). Households' consumption domains analyzed: Food, Housing, Transport and mobility, Furnishing and household goods, Textile, Health, Recreation and culture, Restaurants and hotels, Beverages, Communication, Education, Miscellaneous

TEXTILES' ENVIRONMENTAL FOOTPRINT SEEMS TO BE DECLINING WHILE TECHNOLOGICAL DEVELOPMENT IS RISING, DESPITE STABLE INVESTMENTS

A comparison between data on textiles' environmental footprint elaborated by the European Environmental Agency in 2017 and, later on, in 2020, has been made to search for significant variations. During these years, calculation methodologies have been updated and this may have affected the comparability among performances. Yet, a significant improvement still seems to be retraceable.

Indeed, between 2017 and 2020, the fashion industry's environmental impacts per unit produced have decreased on average by 46.3%, while technological development advanced by 23.3%, driven mainly by new patent registrations[1].

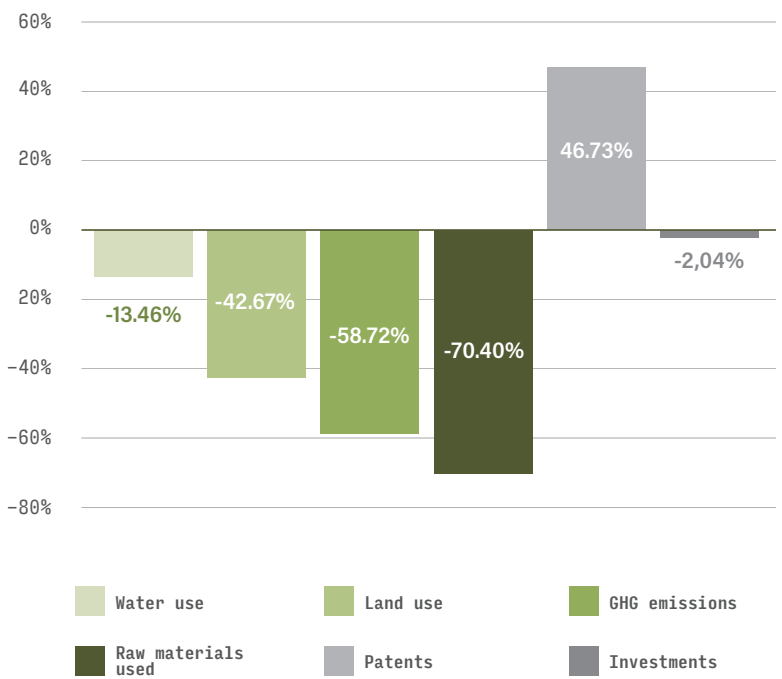
New technologies, such as water and energy consumption tracking, 3-D and AI-assisted design, and data analytics for production and collection management, are becoming paramount for the industry sustainable transition[2].

Artificial Intelligence (AI), AR/VR, and Big Data are essential for revitalizing the textile industry. Consumers seek convenience, personalization, and sustainable materials, driving the rise of online shopping[2].

In Europe, bold tech investments are needed to replicate in-store experiences online, focusing on customer experiences. Additionally, AI, sensors, and IoT are crucial for managing inventories and creating data-driven distribution centers[2].

With an expected doubling of demand for clothing products by 2050, companies' awareness of the key role of technology as a driver of the transition is evidenced by the projected increase in technological innovation investment in the sector from +1.7% in 2021 to +3.5% in 2030[3].

Environmental impacts per product unit and rate of innovation variation in the textile industry (%, 2017 vs. 2020)[1]



(1) The European House – Ambrosetti, Elaboration on ACIMIT Evolution and impacts of the "Sustainable Technologies" project (2023)

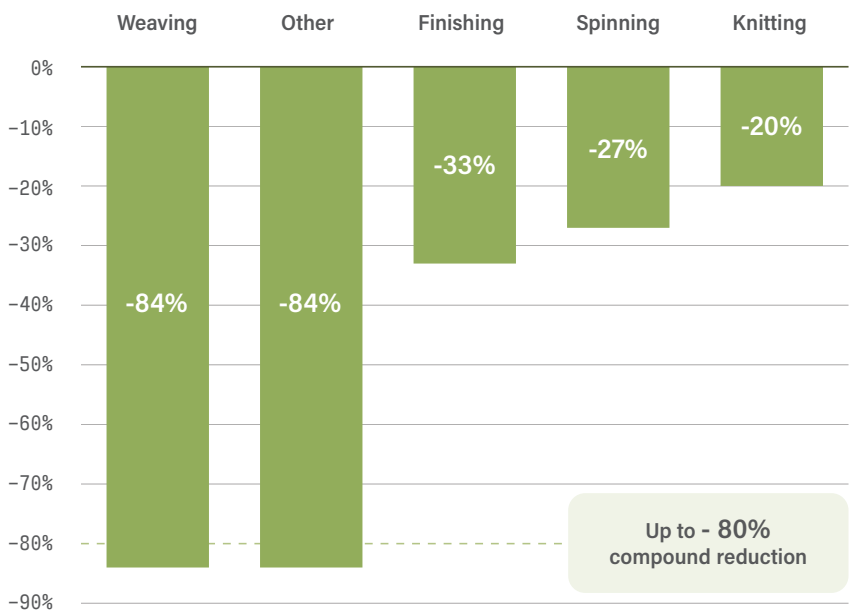
ITALIAN TEXTILE MACHINERY CASE PROVES HOW TECHNOLOGICAL IMPROVEMENT IS ABLE TO CUT CO_2 EMISSIONS UP TO ~80% IN JUST 5 YEARS

Set up in 2011 by the Association of Italian Textile Machinery Manufacturers (ACIMIT), the Sustainable Technologies Project aimed at monitoring the commitment of over 44 Italian manufacturers of machinery for the textile industry in continuously improving their products, reducing their consumption during use and consequently lowering the Carbon Footprint.

Over the past 5 years, the participating companies introduced technological innovations to their machines, leading to significant energy and environmental improvements. 90% of companies made innovations to their machines, with 48% changing their entire portfolio. The main areas of investment were software (19%), mechanical components (18%) and the production process (16%).

Data provided by the companies proved that the introduction of ensuing technological innovations can cut the overall carbon emissions of the analyzed companies up to approximately 80% in 5 years, amounting to a total of 1,227,587 tonnes of CO_2 avoided. To put this into perspective, the reduction is equivalent to the emissions produced by 38,534 cars traveling 35,000 kilometers per year or the emissions attributed to the annual activities of 23,306 global citizens. Notably, this reduction was especially pronounced in the finishing sector.

Machinery Carbon Footprint reduction before and after technological improvement (%, 2016-2021)[1]



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

KEY MESSAGE
2.2

CRAFTING SUSTAINABLE GARMENTS SEEMS TO BE OVER TWO TIMES PRICIER THAN CONVENTIONAL ONES. IN A MARKET WHERE PRICE CONTINUES TO DRIVE PURCHASING CHOICES, THE MARGINS ACHIEVED BY DIFFERENT BUSINESS MODELS IS A LIKELY KEY FACTOR IN DETERMINING THE ABILITY OF COMPANIES TO MAKE A SUSTAINABLE SHIFT IN PRODUCTION.

SUSTAINABLE PRODUCTION COSTS ARE ON AVERAGE >2X HIGHER THAN TRADITIONAL ONES, PRELIMINARY ANALYSIS ON CASE STUDIES SHOWS

A common standard on what "sustainable fashion production" implies in terms of materials, processes, labour, and distribution is missing.

Only one case study can be found that takes a position on what features underlie the production of the "greenest T-shirt ever made", which should have the following characteristics: complete supply chain transparency from cotton seed to warehouse, 100% self-fabric construction for full biodegradability and no plastic components, durable threads and reinforced stitching for longevity, biodegradable tags, fair-trade cotton sourcing, non-GMO and sustainable farming practices. Lastly, to maintain timeless appeal, the T-shirt boasts a classic color palette, ensuring its longevity and continued style relevance for years to come.

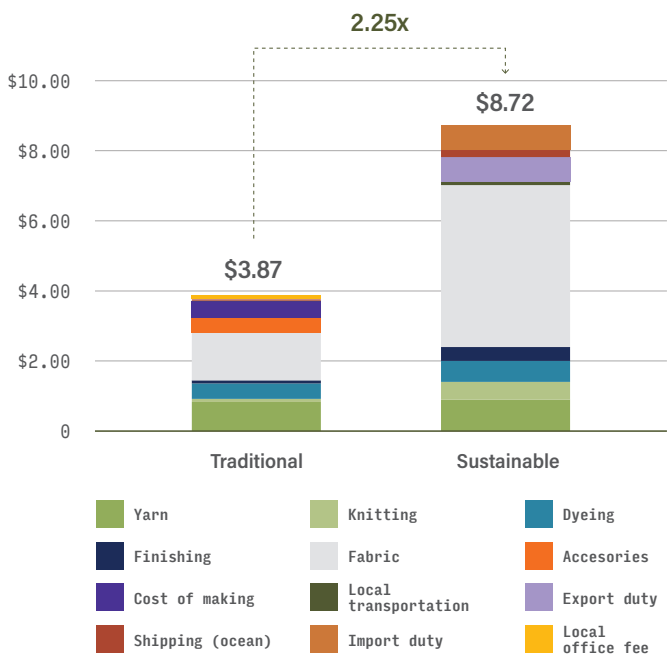
According to an analysis on cost modelling in developing countries, the average compound production costs of a traditional basic cotton t-shirt lays around $3.87 while the retail price is more than double (up to $8)[2].

Sustainable production costs are still hard to estimate as common standards are missing.

Case histories on sustainable production show how making a Fair-Trade ethical cotton T-Shirt can cost up to $8.72 while consumers are willing to pay a price of around $36 – a fourfold market value[2].

In both cases, the main cost item is fabric, which contributes around 35-53% of the total value of production[2].

Traditional and sustainable production costs composition by value chain activity compared[1,2]



(1) The European House - Ambrosetti elaboration on Sustainably Chic, True Cost Series | Why Does A Sustainable T-Shirt Cost $36? (2023); (2) The European House - Ambrosetti elaboration on R. Hasan, et al., (2020)

HOW MUCH INFLUENCE CAN MARGINS HAVE ON COMPANIES' READINESS TO SHIFT TOWARDS A MORE SUSTAINABLE PRODUCTION?

Faced with rising production costs and the promise of higher margins, companies find themselves at a strategic crossroads: either pass costs on to the market, thus increasing consumer prices of garments, or internalize them, eroding margins.

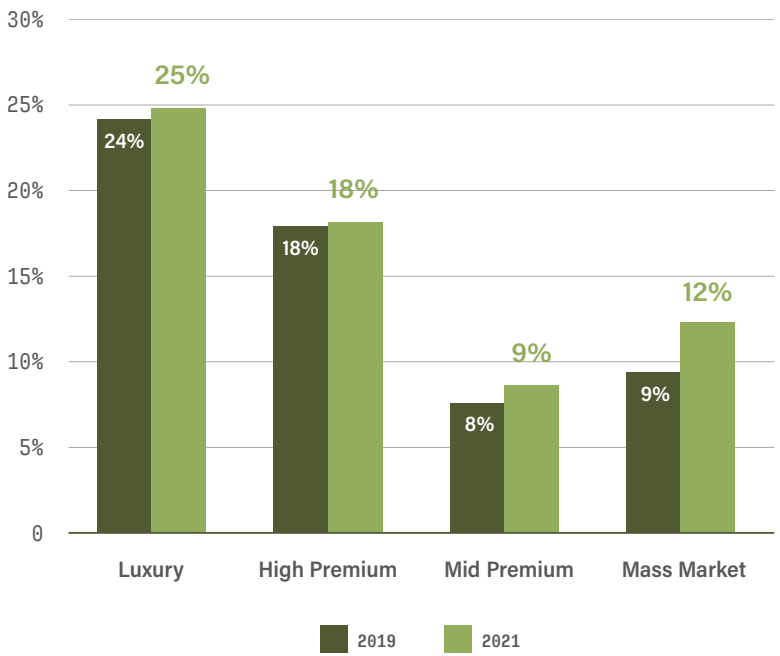
However, between 2019 and 2021, EU consumers average expenditure per capita has significantly decreased, falling by 13% to €662 and suggesting a reduced willingness of the market to absorb a potential fourfold surge in prices[1].

In this context, those who can boast attractive margins may be more geared to market sustainable clothes at affordable prices for all.

Data collected on the largest European fashion companies show that luxury and high premium remain the market segments with the highest margins (25% and 18% respectively). Yet, it is the mass market that has recorded the fastest growth over the three-year period (+30%), gradually approaching the performance of the most profitable segments.

This analysis is rooted in the most recent publicly available balance sheets of fashion companies across nine European countries: Belgium, Denmark, France, Germany, Italy, the Netherlands, Portugal, Spain and Sweden. Notably, these companies were required to exhibit a minimum turnover of €40 million. The core of this analysis centers on Brand Price Positioning.
To accomplish this, a simplified assessment of pricing strategies across various product categories—namely plain T-shirts, shirts, jackets, sneakers, smooth-heeled shoes, and shoulder bags—was conducted within the aforementioned companies.

Operating margins of EU 248 biggest fashion companies by market segment (EBITDA/operating revenues 2019-2021)[2]



(1) The European House-Ambrosetti elaboration of Eurostat: Final consumption expenditure of households by consumption purpose (2023); (2)The European House – Ambrosetti elaboration on all latest balance sheets publicly available information from largest EU companies

KEY MESSAGE
2.3

EU CONSUMERS DISCARD 5.2 MILLION TONNES OF TEXTILES EACH YEAR. RECYCLING, AND REUSE ARE TWO LEVERS FOR ACTION, BUT EACH OF THEM INVOLVES DIFFERENTIATED TECHNICAL BARRIERS AND ENVIRONMENTAL IMPACTS.

OUT OF 35 TEXTILE ITEMS DISCARDED PER CAPITA ON AVERAGE EVERY YEAR IN EU, 3 GET RECYCLED AND LESS THAN 1 IS SECOND-HANDED INSIDE THE BOARDERS

Estimations on annual textile waste produced in Europe vary between 5.2 million and 7.5 million tonnes[1] – equal to around 26 billion items of clothing, meaning 35 items per capita weighting around 300 gr each[2] – and textile waste is projected to increase by 20% before 2030[3].

The average textile waste collection rate in EU stands at 35% while over 62% of used items end up in household waste, likely to be incinerated or landfilled[4].

Over 60% of the discarded textiles are synthetic fibers, primarily composed of polyester – one of the hardest fibers to manage - during garments' end-of-life[1, 2].

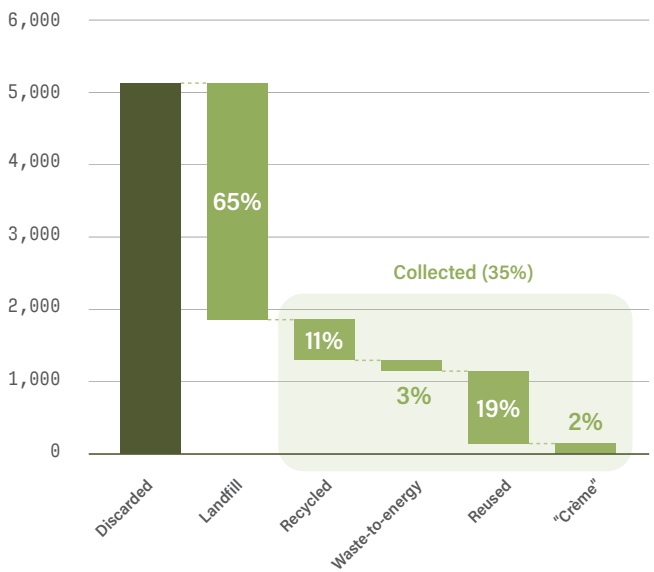
Presently, collected used-garments are sorted into[5]:

- Crème clothing, a high-quality category suitable to be sold in Europe – which represents only 5% of the total collected textiles.
- Second-grade textiles destined to Middle East and North Africa (MENA)
- Third-grade textiles sold in Asian markets.
- Tropical mix – lightweight garments fit for the sub-Saharan Africa demand.

Insights into the volumes of textiles destined for reuse and their corresponding locations, can be gained from a case study conducted by Humana People to People. This report draws upon data gathered from Humana organizations across several European countries, including Denmark, Finland, Germany, Norway, Slovenia, Slovakia, Spain, and Sweden, as well as the sorting centers that receive textiles from these collection entities. The findings reveal the following distribution of reuse[6]:

- Europe market: 25-30% of textiles are reused.
- MENA and sub-Saharan markets (involving tropical mix/ second-hand fabrics): a significant 25-30% of textiles find reuse in these regions.
- Asian market: around 15% of textiles are reused in various forms within the Asian market.

EU textile waste volume and its composition by end-of-life destination (kton and %)[1,5]



(1) The European House - Ambrosetti Elaboration on European Commission. Circular economy for textiles: taking responsibility to reduce, reuse and recycle textile waste and boosting markets for used textiles (2023); (2) The European House – Ambrosetti elaboration on various sources; (3) McKinsey & Company, Scaling textile recycling in Europe–turning waste into value (2022); (4) EEA, Textiles in Europe's circular economy (2023); (5) The European House - Ambrosetti Elaboration on EuRIC, the European Federation of Recycling Industries, 'LCA-based assessment of the management of European used textiles granted by Humana People to People Italia (2023); (6) UFF Humana, Textile Transparency report. Granted by Humana People to People Italia (2022)

ONLY ABOUT 1% OF MADE-IN-EU CLOTHES IS MADE FROM RECYCLED TEXTILES, MAINLY DUE TO A STILL LIMITED TEXTILE WASTE SORTING AND COLLECTION CAPACITY

The European textile recycling industry is worth over $4.6 billions holding a 29.6% share of the global industry revenues[1], and it is able to manage over 32% of the annually collected textile waste[2] (around 700,000 tonnes)[3].

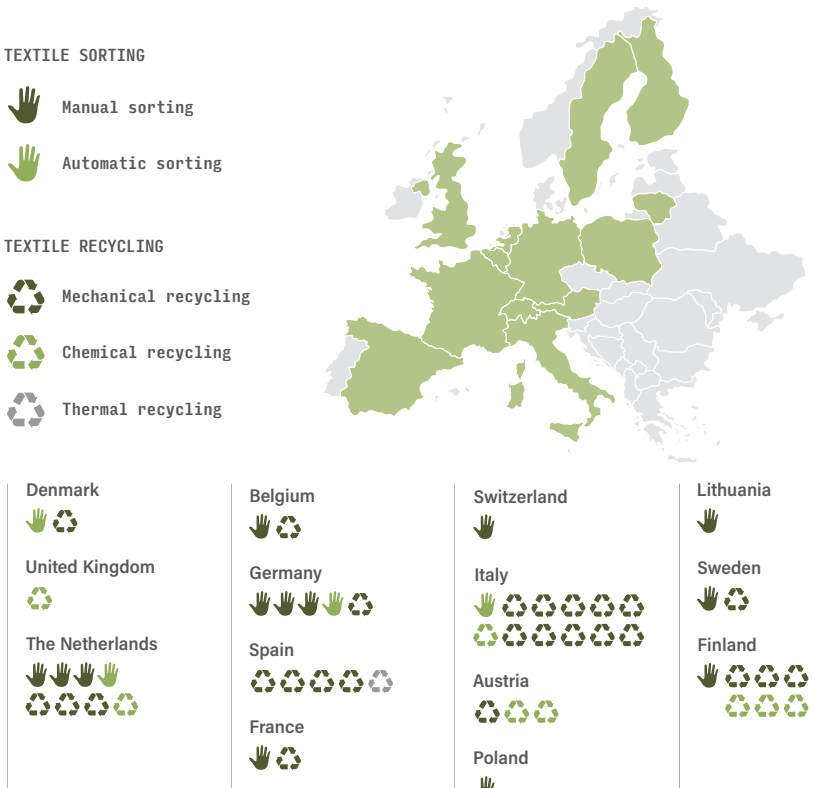
Textile recycling involves two main methods: mechanical and chemical. The former turns clothing into basic fibers and it is primarily suitable for natural mono-fiber fabrics[4] . The latter breaks down textiles into monomers to be reassembled into new yarn[4].

As of today, in EU, approximately 16,000-25,000 tonnes of recycled textiles are actually repurposed into new clothes[3]. Yet, as collected garments is increasingly made of synthetic fibers, recycling emerges as an ever more attractive solution, with planned investments forecasting an increase in overall capacity to 1.3 million tonnes by 2025 (1 million tonnes mechanical and 250,000 chemical tonnes)[5].

However, textile recycling faces persistent challenges linked to the manual sorting capacity, as individuals are able to handle on average 100-150 kilograms of textiles per hour. These difficulties extend to mechanical recycling, where issues arise not only from the degradation of fiber quality but also the intricate process of segregating garments based on color and material, eliminating non-recyclable components like zippers and transforming fibers into usable yarns, all of which contribute to the complexity of the sorting process[3,4].

On the other hand, chemical recycling demands larger mass flows for efficiency, considering energy-intensive processes and the need for high-quality purification[3].

Distribution of recycling capacity among European countries[3]



Green highlighted countries present more than 3 recycling key actors

(1) Textile Recycling Market Size & Share - Global Report (2023); (2) European Commission. Circular economy for textiles: taking responsibility to reduce, reuse and recycle textile waste and boosting markets for used textiles (2023); (3) Swedish Environmental Research Institute, Sustainable clothing futures (2023); (4) Kuyichi, Mechanical vs chemical recycling; (5) Textile Technology, Current challenges and solutions for the recycling of (mixed) synthetic textiles (2022)

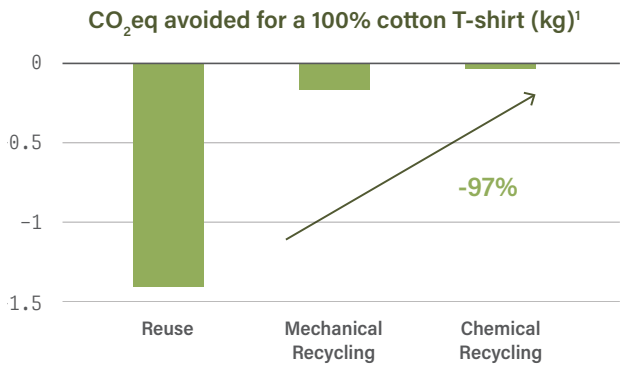
REUSING A 100% COTTON CRÈME-QUALITY T-SHIRT ENABLES TO AVOID OVER 97% OF CO_2 EMISSIONS AND 99% OF WATER USE COMPARED TO CHEMICAL RECYCLING[1]

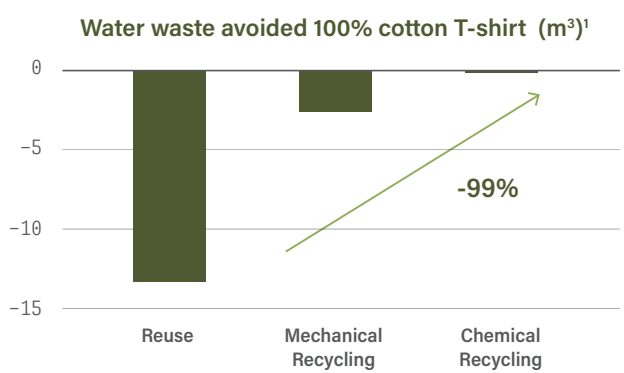
A recent Life-Cycle Assessment (LCA) conducted on behalf of the European textile industry reveals a compelling environmental advantage in reusing a garment up to 52 times compared to both producing a new garment and recycling an existing one. When comparing the environmental impact of producing a new garment to that of reused t-shirts, a striking disparity emerges, with new garment production being nearly 70 times more environmentally taxing.

Also, when comparing reuse and recycling in Europe, the study finds that reusing high-quality garments (i.e., 100% cotton t-shirts reused up to 52 times) may save up to 97% of CO_2 and 99% of water.

Furthermore, the study highlights how the environmental benefits of reuse versus recycling are directly linked to the quality of garments considered, and to their substitution rates – that is, the extent to which the purchase of a used garment actually substitutes for the consumer's purchase of a new garment.

For example, recycling lower quality garments (i.e. a 100% polyester t-shirt), appears to guarantee slightly better climate change performances than reusing them as its substitution rate is lower due to the poorer condition of clothing after use.





(1) The European House-Amborsetti Elaboration on EuRIC, the European Federation of Recycling Industries, 'LCA-based assessment of the management of European used textiles granted by Humana People to People Italia (2023)

3.

INSTITUTIONAL DRIVE

KEY MESSAGE
3.1

While regulatory pressure on sustainability is rising globally, **the European Union and the United States offer divergent solutions to reach their climate goals.**

KEY MESSAGE
3.2

In Europe, the road to sustainability in fashion is erratic: while some legislation proposals are progressing as scheduled or gaining momentum, others face obstacles from States and lobby groups.

KEY MESSAGE
3.3

European ESG legislation might confront substantial hurdles as it places significant burden on companies, while appearing to leave critical issues unanswered and enforcement barriers unresolved.

KEY MESSAGE
3.1

WHILE REGULATORY PRESSURE ON SUSTAINABILITY IS RISING GLOBALLY, **THE EUROPEAN UNION AND THE UNITED STATES OFFER DIVERGENT SOLUTIONS TO REACH THEIR CLIMATE GOALS.**

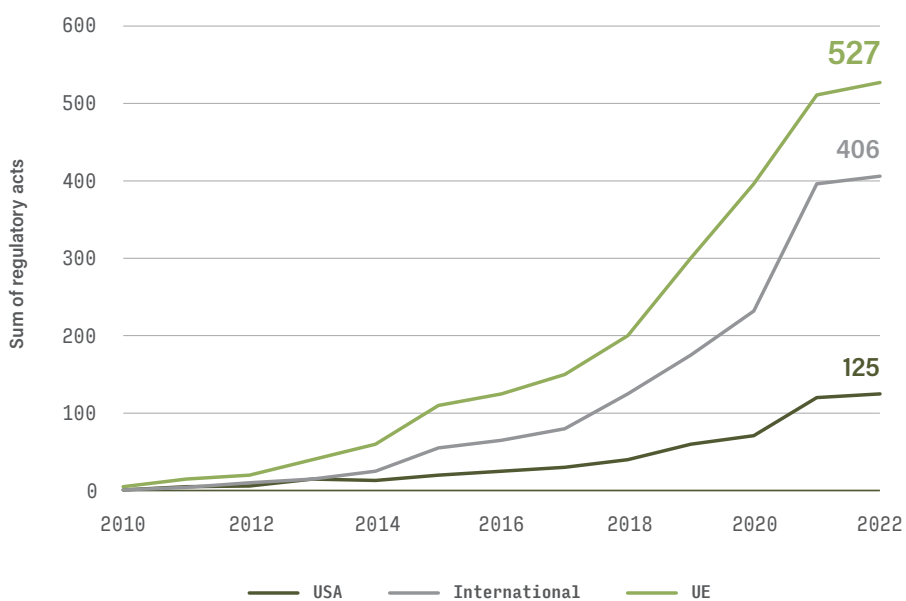
GLOBAL PRESSURE ON FIGHT TO CLIMATE CHANGE IS ON THE RISE, EVEN THOUGH A DECELERATION OCCURRED IN 2022

Over the past decade, the focus on sustainability continued to grow and Governments and institutions around the world took a more active role by introducing regulations, providing guidance and offering incentives.

In particular, the European Union is at the forefront when it comes to the sheer quantity of regulatory measures. By setting the ambitious goal of becoming the world's first continent to achieve climate neutrality by 2050, the European Union is firmly positioning itself as a trailblazer in the transition toward sustainability.

A global deceleration in regulatory pressure on climate change can however be observed in 2022. In Europe, this slackening is less visible due to high alignment between the EU commitments to decarbonisation and its new strategies to pursuit energy independence, made evident by the enactment of policies like "RepowerEU", the plan aimed at reducing the continent's dependence on Russian fossil fuels and accelerating the transition to green energy.

Increasing regulatory activity on climate change on a geographic level[1]



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

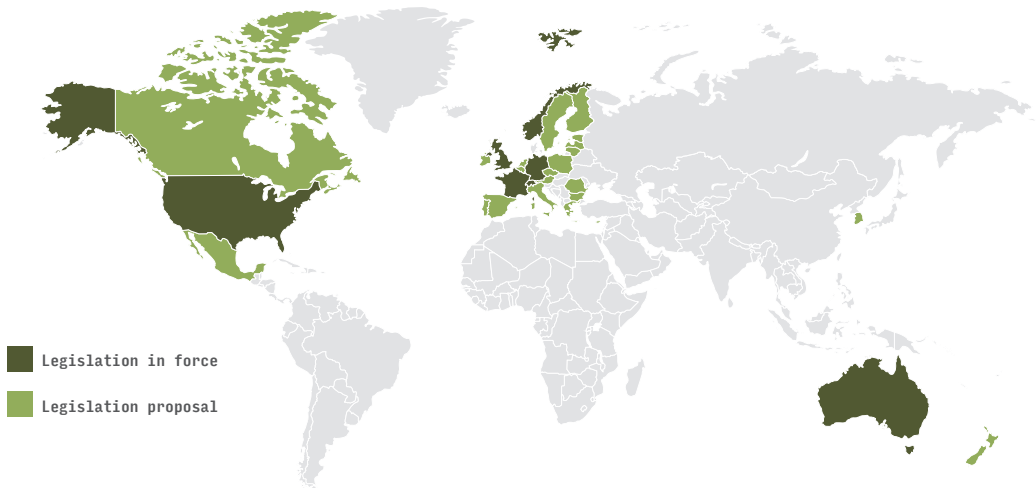
IN THE WAKE OF OECD GUIDELINES, THE WORLD IS WITNESSING THE EMERGENCE OF ESG DUE DILIGENCE OBLIGATIONS FOR BUSINESSES

Sustainability-related due diligence has become a prominent focus in the realm of ESG-related legislation[1]. There is a growing global trend of issuing new laws that place increasing pressure on organizations to ensure that their supply chains do not cause harm. While some of these laws specifically focus on employees and communities, others also target environmental protection.

Within the fashion industry on a global scale, the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector has established a regulatory foundation that serves as a basis for the development of binding national legislation. These guidelines encompass the entire supply chain and address both human rights protection and environmental considerations, including aspects like water usage, energy consumption, and waste management. They leverage traceability systems and supplier codes of conduct to ensure compliance.

By adopting a risk-based approach for due diligence, aimed at prompting evaluation and action to reduce possible negative consequences, the guidelines establish a shared comprehension of due diligence within the sector, helping companies in meeting the due diligence standards specified in the OECD Guidelines for Multinational Enterprises.

Mapping sustainability-related due diligence legislation worldwide[2]



United States
Uyghur Forced Labor Prevention Act

New York Fashion Sustainability Act

Canada
Forced Labor Bill

Mexico
General Law of Corporate Due Diligence

United Kingdom
Modern slavery Act

European Union
Sustainability Due Diligence Directive

France
Corporate Duty of Vigilance Law

Germany
Supply Chain Due Diligence Act

Norway
Transparency Act

Switzerland
Ordinance on Due Diligence

Australia
Commonwealth and NSW Modern Slavery Act

New Zealand
Plan of Action

South Korea
Human Rights and Environmental Due Diligence Draft Bill

(1) OECD (2018); (2) The European House – Ambrosetti elaboration on various data

EU RESPONDS TO US ON HOW TO APPROACH THE GREEN TRANSITION, PREPARING THE FIELD FOR A NEW COMPETITIVE CHALLENGE

	 Inflation Reduction Act (IRA)[1] ALL CARROTS, NO STICKS	 Green Deal Industrial Plan (GDIP)[2] STICK BEFORE CARROT
Goal	Ramp up value chains for green energy and batteries, with **CAPEX and OPEX** support, with a dedicated budget of $370 billion out of a $737 billion total	Meet at least **40% of EU needs for net-zero products with EU-manufactured tech by 2030** and increase resilience of supply chains of critical goods
Leverage	**Bureaucratic simplicity** through fast-tracks and easy-to apply eligibility criteria	**Structured approach** through a shared framework guiding national regulations
Tools	**Tax incentives and bonus** credits for electric vehicles, clean energy and efficiency	**Fast permitting procedures**, training and education to ensure an EU net-zero-skilled workforce
Downsides	Risk of market distortions due to uncapped credits, with a **final bill for taxpayers that could exceed $1tn**[3]	**Increased bureaucratic complexity and lack of additional budget** allocated to enhance cost-effectiveness of deploying clean-tech solutions

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

KEY MESSAGE
3.2

IN EUROPE, THE ROAD TO SUSTAINABILITY IN FASHION IS ERRATIC: WHILE SOME LEGISLATION PROPOSALS ARE PROGRESSING AS SCHEDULED OR GAINING MOMENTUM, OTHERS FACE OBSTACLES FROM STATES AND LOBBY GROUPS.

INTENSE EU REGULATORY DRIVE ON FASHION AND LEATHER INDUSTRY ELICITS MIXED REACTIONS FROM MEMBER STATES

In March 2022, the European Commission unveiled the “EU Textile Strategy” a comprehensive initiative aimed at establishing a unified framework and vision for the transition of the textile sector.

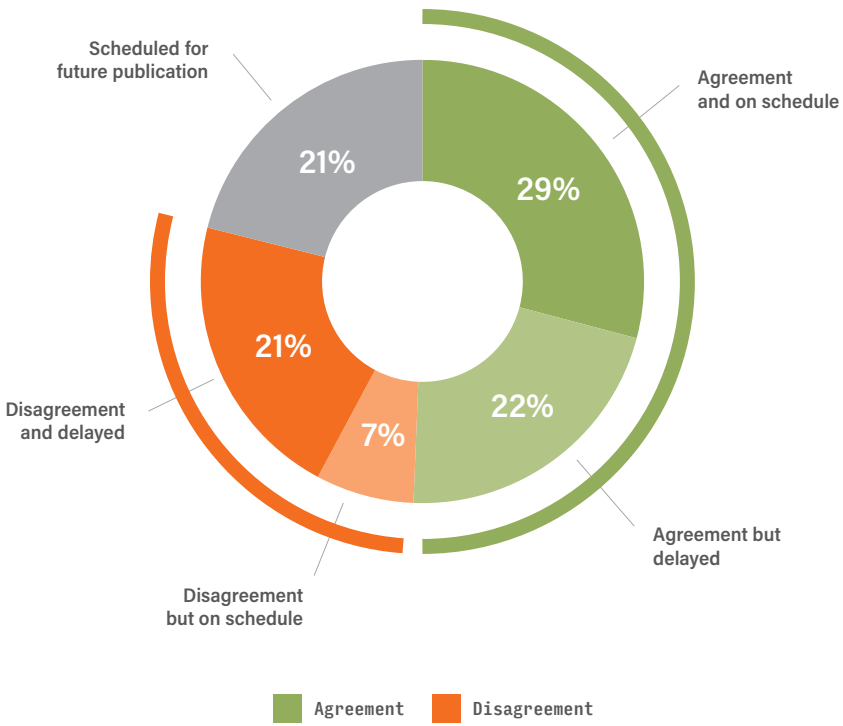
The Strategy’s primary objectives are meant to address the challenges posed by fast fashion, textile waste, and the disposal of unsold textiles, by ensuring that textile production enhances the durability, repairability, reusability, and recyclability of textiles while fully respecting social rights by the year 2030.

Out of the 24 measures presented, 14 have been singled out as key legislatives actions and have been subject to an in-depth analysis to assess their current status of implementation, considering two crucial dimensions: the timeline for their application and the level of consensus achieved.

Besides a share of proposals anticipated for future publication, it seems that agreement exists on legislations in 51% of the cases under consideration. Meanwhile, another 28% of these cases encounters disagreement, either due to differing stances among the three European institutions or significant influence from lobbying groups, resulting in delays in 3/4 of these instances[1].

The hectic legislative impetus has resulted in a complex regulatory environment to navigate and has stirred mixed reactions from Member States and stakeholders across the continent.

Status of European ESG legislation impacting the textile and leather sector[1]



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

THE PROPOSAL FOR A NEW ECODESIGN REGULATION PUTS PRESSURE ON THE FASHION INDUSTRY, WITH STILL UNCLEAR ENVIRONMENTAL BENEFITS[1]

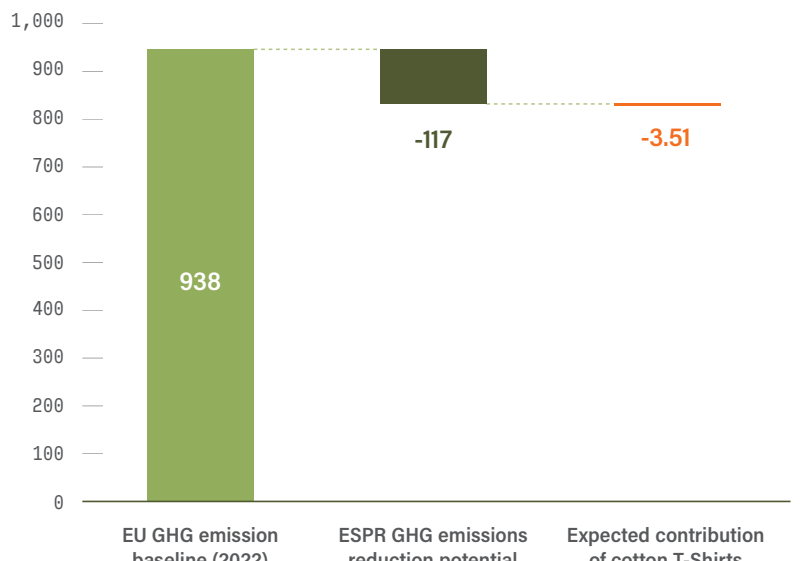
The proposal for a new Ecodesign for Sustainable Products Regulation (ESPR), published on 30 March 2022, represents the cornerstone of the Commission's strategy for promoting environmentally friendly and circular products.

This proposal establishes a framework to define eco-design requirements for specific product categories, with the aim of significantly enhancing their circularity, energy efficiency, and overall environmental sustainability. Products will also have to be provided with a Digital Product Passport, a specific data set enabling the electronic registration and transfer of information along the value chain, hence facilitating sustainable choices by making data more accessible and transparent.

The projected implications of the proposal include a -3.51 millions of tonnes CO2eq of EU-wide greenhouse gas emissions through eco-design of cotton t-shirts. The analysis only takes into account a small fraction of all products covered; however, the result does not seem particularly encouraging.

Member States in the Council have displayed mixed reactions to the proposal: while agreeing to speed up the process for a direct ban on destruction of unsold clothing, they further deprived the Product Environmental Footprintt (PEF) of its role as a main environmental Footprint measuring methodology.

Expected European GHG emissions (Mt CO_2eq) reduction as a consequences of ESPR implementation[2]



(1) European Union, Ecodesign for Sustainable Products Regulation (ESPR); (2) The European House – Ambrosetti elaboration of European Commission (2022) and European Environmental Bureau (2022)

EU IS INCREASING ESG DUE DILIGENCE REQUIREMENTS ALONG VALUE CHAINS, FOCUSING ON HIGH-IMPACT INDUSTRIES AS TEXTILE AND LEATHER

OBJECTIVE

With the Directive on Corporate Sustainability Due Diligence (CSDDD)[1], the European Union aims to promote responsible business behavior within and outside European borders, and to foster transparency on due diligence practices for investors and consumers. Companies will be required to identify, prevent, end, mitigate, and report on actual and potential negative impacts of their activities on human rights and on the environment.

SCOPE OF APPLICATION

- Group 1: EU companies with more than 500 employees and a net turnover worldwide of more than €150 mn; non-EU companies need only meet the turnover criterion to be included in this category, irrespective of their workforce size.

- Group 2: EU companies operating in high-impact sectors, such as fashion[2] with more than 250 employees and a net turnover worldwide of more than €40 mn, with at least 50% of the latter generated in high impact sectors. Non-EU companies need only meet the turnover criterion to be included in this category, irrespective of their workforce size.

REQUIREMENTS

Main features of due diligence are:

- integration of a due diligence policy;
- identification and assessment of impacts;
- implementation of appropriate impact prevention and mitigation measures;
- performance monitoring and disclosure;
- transition plan to ensure that business contributes to the achievement of Paris Agreement goals;
- establishment of appropriate complaint procedures.

The Directive places responsibility on Directors to incorporate human rights, climate change, and environmental considerations into their decision-making process and requires them to implement and supervise due diligence actions and policies by integrating them into the company's overall strategy.

EFFECTIVE DATE

The expected time for adoption of the Directive is at the beginning of 2024, but trilogue negotiations between the Commission, Council and Parliament are still ongoing to find a compromise text between the parties. In accordance with the text of the Directive as currently devised, once adopted officially, obligations for Group 1 companies would be applicable after 2 years, while Group 2 companies would come into scope after 4 years.

(1) Proposal for a Directive on Corporate Sustainability Due Diligence and amending Directive (EU) 2019/1937; (2) The directive considers the following sectors as high impact: manufacture of textiles, leather and related products, wholesale trade of textiles, clothing and footwear; agriculture, forestry, fisheries, manufacture of food products, wholesale trade of agricultural raw materials, live animals, wood, food, and beverages; extraction of mineral resources, manufacture of basic metal products, other non-metallic mineral products and fabricated metal product

THE WHOLE FASHION INDUSTRY IS IMPACTED BY THE NEW CSDDD, BUT LEATHER'S FORESTRY FOOTPRINT IS UNDER SPECIFIC SPOTLIGHT

In addition to the Corporate Sustainability Due Diligence Directive proposal, which requires to carry out due diligence on a limited number of human rights and environmental damages within its scope, on June 2023 the Deforestation Regulation (EUDR)[1] entered into force, introducing a further level of due diligence on specific products, with reference to deforestation.

The EUDR requires companies engaged in the trade of commodities, including oil palm, soya, wood, cocoa, coffee, cattle (meat and leather) and rubber, as well as products derived from these commodities, to undertake comprehensive due diligence across their value chains to ensure the goods do not result from deforestation, forest degradation or violations of local environmental and social laws that occurred after December 31, 2020.

The obligations apply from 30 December 2024 (or from 30 June 2025 for micro- and small-sized businesses) and apply to goods produced on or after 29 June 2023. It's important to note that this regulation does not pertain to goods made entirely from materials that have completed their lifecycle and would otherwise have been discarded as waste.

MAIN REQUIREMENTS OF THE EUROPEAN DIRECTIVE

PROHIBITION OF IMPORT AND EXPORT OF NON-COMPLYING PRODUCTS

Products must be deforestation-free, produced in compliance with relevant legislation and covered by due diligence statement.

DUE DILIGENCE OBLIGATION

Collection of information (including geo-localization and time period of production and verifiable evidence that product is deforestation free), risk assessment and mitigation.

OBLIGATIONS ON MEMBER STATES TO ENSURE IMPLEMENTATION

Member States will monitor implementation and set penalties including fines, confiscation of products and revenues and exclusion from public procurement.

IMPLEMENTATION OF INFORMATION SYSTEM

No import or export without a due diligence statement submitted to the Information System and indicating compliance.

(1) Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010

EUROPEAN COMMISSION BACKTRACKS ON PRODUCT ENVIRONMENTAL FOOTPRINT AND STANDARDIZATION, DESPITE INDUSTRY'S CONCERNS

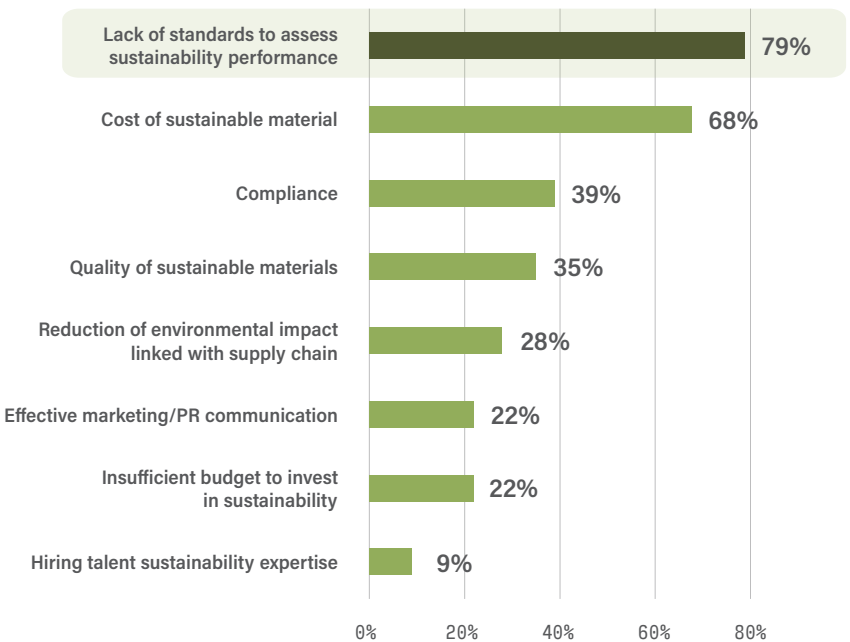
In March 2022, the European Commission presented the proposal for a Directive on Green Claims, requiring companies that choose to making green claims about their products or services to respect minimum norms on how they substantiate these claims and how they communicate them.

In particular, such claims will need to be independently verified and proven with scientific evidence. Companies are also expected to conduct a comprehensive environmental impact assessment of their products to provide accurate information[1].

However, contrary to expectations based on initial Commission statements, the proposal does not mandate the Product Environmental Footprint (PEF) as sole framework to substantiate green claims, showing the Commission's vulnerability to the pressing from lobby groups. This could prove to be a counterproductive move for the fashion industry, as executives state that the lack of standardised tools and metrics is the main obstacle to improving consumer perception of sustainability efforts.

Amid the uncertainty surrounding the future of PEF, the "Made Green in Italy" initiative stands out as the first and only legislation to incorporate PEF into national regulations. It functions as a certification scheme that combines both the environmental "green" aspect, validated by PEF adherence, and the "Made in Italy" certification. However, given the shrinking prominence of PEF in European legislation, it remains to be seen whether the Italian scheme will also switch to another footprint methodology.

Biggest challenges to improving sustainability credentials in the eyes of consumers (% of business respondents)[2]



(1) European Commission, Proposal on substantiation and communication of explicit environmental claims (2023); (2) The European House – Ambrosetti elaboration of BoF-McKinsey State of Fashion 2023 Survey

WITH ITS TAXONOMY EU ONCE AGAIN SHOWS ITS ERRATIC BEHAVIOUR, AS HIGH-IMPACT SECTORS LIKE FASHION SEEM TO BE STILL LEFT BEHIND

Following the launch of the EU Taxonomy for Sustainable Finance, which allowed companies to measure themselves against common technical criteria to assess their contribution to achieving EU climate goals[1], in 2022, the EU Platform on Sustainable Finance defined some activities of the fashion industry as eligible for contribution to 4 out of the 6 EU Taxonomy objectives[2].

The 4 environmental objectives include:

- sustainable use and protection of water and marine resources;
- transition to a circular economy;
- pollution prevention and control;
- protection and restoration of biodiversity and ecosystems.

However, the Environmental Delegated Act published by the European Commission in July 2023, which introduces a new set of criteria for economic activities that make a substantial contribution to environmental objectives, does not encompass any activities of the fashion industry[3].

This delay in their inclusion in the Taxonomy activities will create added challenges for businesses in the fashion sector when it comes to demonstrating their sustainability performance.

FASHION ACTIVITIES EXPECTED TO BE IMPACTED BY THE TAXONOMY

Crop production
Finishing of textiles

Wearing apparel, except articles of fur and leather: manufacturing, repairing/refurbishing/remanufacturing and sale of spare parts, sale of second-hand, product-as-a-service and other circular use- and result-oriented service models

Footwear and leather goods: manufacturing, repairing/ refurbishing/ remanufacturing, sale of second-hand, product-as-a-service and other circular use- and result-oriented service models

Leather tanning

Repair, refurbishment and remanufacturing, sale of spare parts
Preparation for re-use of end-of-life products and components
Sale of second-hand goods
Product-as-a-service and other circular use- service models

(1) Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment; (2) Annex to the Platform on Sustainable Finance's report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU taxonomy (2022); (3) Text of the Environmental Delegated Act and amending the Disclosures Delegated Act (2023)

THE AGEC LAW SHOWS DISCONTINUITY IN EU STATES' NORMS, PLACING A BURDEN ON COMPANIES TO COMPLY WITH DIFFERENT LAWS

OBJECTIVE AND TIMELINE OF APPLICATION

The "Anti-waste for a circular economy" (AGEC) law[1] adopted by France on the 10th of February 2020, introduces new measures to increase the circularity of all goods sold on French territory.
On January 2023, new regulations tailored specifically to the fashion and textile industry were implemented, and each year thereafter, the criteria for compliance will become progressively more stringent:

- January 2023 – companies with annual turnover: > €50 mn and >25,000 products placed on the French market;
- January 2024 – companies with annual turnover: > €20 mn; and >10,000 products placed on the French market;
- January 2025 – companies with annual turnover: > €10 mn; and >10,000 products placed on the French market.

CONSUMER INFORMATION

The law mandates that fashion companies must convey information to consumers, by using suitable means, with regard to the environmental attributes of their products, according to EU regulations. This information should place a strong emphasis on life cycle analysis, focusing specifically on:

- product traceability;
- Information on materials;
- recyclability of the product.

DEADSTOCK

The law stipulates that manufacturers, importers, and distributors of new products are required to either reuse, donate, or recycle unsold products, unless the recovery of the materials is prohibited.

EXTENDED PRODUCER RESPONSIBILITY

Producers are obligated to take active steps to prevent and manage waste generated by their products. This includes implementing eco-design principles, facilitating product longevity by enabling professionals to perform maintenance, reuse, and repairs, and participating in initiatives aimed at enhancing product collections and waste treatment.

ENVIRONMENTAL LABELING

The law requires the establishment of an environmental label to educate consumers, using the adopted life cycle analysis method as a basis for its development.

WASTE SORTING

A labeling system explaining product sorting rules must be established, with several requirements:

- providing details on sorting procedures;
- providing specific instructions for each component when various components of the product require different sorting procedures;
- making this information accessible online.

(1) Law n°2020-105 of 10 February 2020

BY 2030, THE FASHION INDUSTRY MAY FALL UNDER THE CARBON BORDER ADJUSTMENT MECHANISM, THREATENING THIRD COUNTRIES' EXPORTERS

TIMELINE OF APPLICATION

OCTOBER 2023

REPORTING REQUIREMENTS

EU importers must document direct and indirect emissions that occur in the production process of these goods.

JANUARY 2025

CBAM AUTHORIZATION

Importers will be required to apply for the status of "authorized CBAM declarant" to import affected goods.

JANUARY 2026

FINANCIAL OBLIGATIONS

Imports will be permitted only by authorised CBAM declarants, who will have to report imports, embedded emissions, and buy/surrender CBAM certificates.

2030

EXTENSION OF SCOPE

The EU may extend CBAM's scope to cover all products covered by EU ETS.

With the new Carbon Border Adjustment Mechanism (CBAM), the EU is imposing a carbon tax to prevent and reduce carbon leakage, promote sustainable production practices, and level the playing field for EU businesses that are subject to the European Union Emissions Trading System (ETS)[1].

Currently, this mechanism applies to importers of specific products such as fertilizers, energy, hydrogen, cement, iron & steel, and aluminum. Nevertheless, it is anticipated that the European Commission may expand the CBAM's coverage to encompass all goods subject to the ETS, including textile and leather products.

This expansion is expected to have various impacts on exporters from non-EU countries[2]. It may lead to increased costs for textile and garment sales in the EU, potentially resulting in higher product prices, reduced demand, and job losses in exporting nations. This could also reduce the competitiveness of non-EU businesses compared to their European counterparts. As an illustration, a recent study predicts a 27% decline in Bangladesh's apparel exports to the European Union as a consequence of the CBAM[3].

(1) Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism; (2) Fibre2Fashion (2023); (3) Research and Policy Integration for Development (RAPID) and Friedrich-Ebert-Stiftung (FES) Bangladesh (2023)

KEY MESSAGE
3.3

EUROPEAN ESG LEGISLATION MIGHT CONFRONT SUBSTANTIAL HURDLES AS IT PLACES SIGNIFICANT BURDEN ON COMPANIES, WHILE APPEARING TO LEAVE CRITICAL ISSUES UNANSWERED AND ENFORCEMENT BARRIERS UNRESOLVED.

INTANGIBLE DURABILITY FACTORS ARE THE MAIN REASON BEHIND THE CONSUMERS' CHOICE TO DISCARD CLOTHING, YET EU'S SOLE FOCUS FALLS ON PHYSICAL DURABILITY

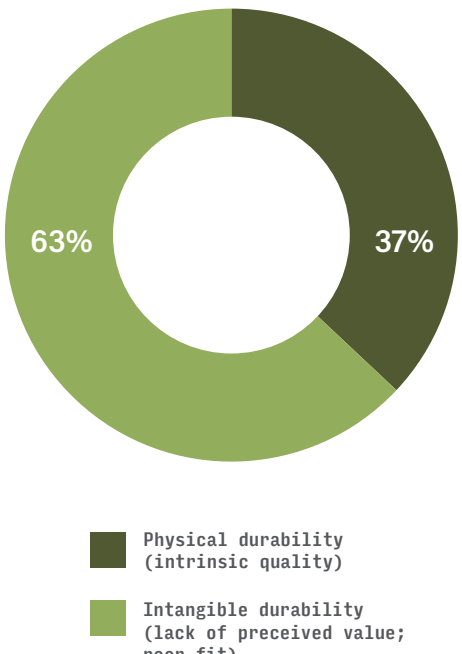
Within the proposal for the Ecodesign for Sustainable Products Regulation (ESPR), durability is narrowly defined as the "ability of a product to function as required, under specified conditions of use, maintenance and repair, until a limiting event prevents its functioning"[1], thus referring only to the physical quality of the products considered.

Nonetheless, reasons for the disposal of clothing go beyond material aspects of durability and the need to replace a product that has reached the end of its physical lifespan. Research suggests that 2/3 of worldwide consumers value garments for reasons other than physical durability, understood as wear and tear-related issues.

In particular, 28% of clothing disposal is linked to issues of fit, whether due to changes in the user's size or because the garment did not fit well from the beginning, while another 35% is related to perceived value, which involves factors such as the perception that the clothing item is outdated, no longer in fashion, unnecessary, unwanted, or undervalued[2].

In its May 2023 recommendation for the EU Strategy for Sustainable and Circular Textiles, the European Parliament acknowledges the Strategy's omission of a comprehensive view of durability, emphasizing the importance of considering long-term consumer relevance and desirability of textiles[3].

Main reasons for clothing disposal[2]



(1) Proposal for a Regulation establishing a framework for setting ecodesign requirements for sustainable products and repealing Directive 2009/125/EC; (2) Kirsi Laitala and Ingun Grimstad Klepp, 2022 and EEB response draft prioritisation Ecodesign for Sustainable Products Regulation, (2023); (3) European Parliament Report on an EU Strategy for Sustainable and Circular Textiles (2023)

IN THE PAST 20 YEARS, USED TEXTILE EXPORTS SURGED FIVEFOLD, YET NEW WASTE REGULATIONS LEFT WASTE-IN-DISGUISE EXPORTS UNSOLVED

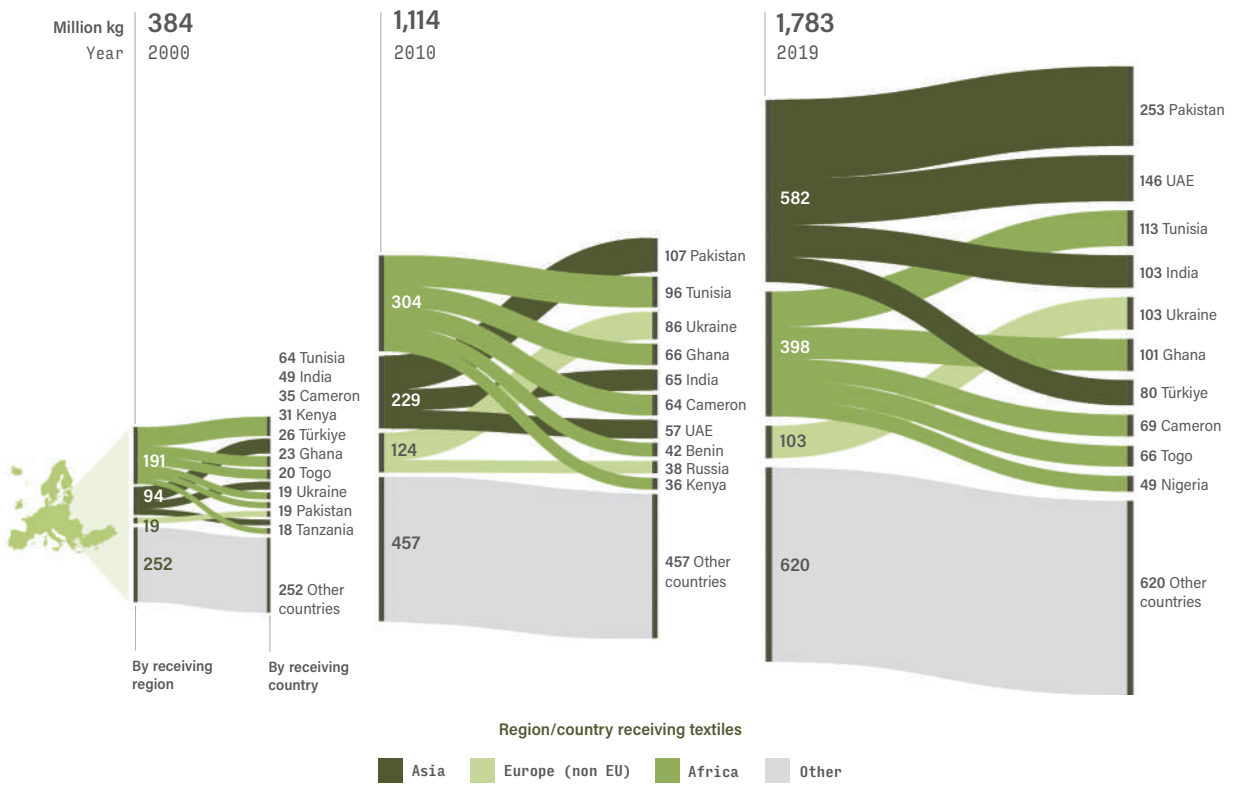
The textile industry stands out as the one with the highest volume of waste exports to non-OECD countries, accounting for 93.5% of the total waste exports[1].

In EU alone, in the last 20 years, used textile export volumes have increased fivefold and now amounts to one quarter of the 14.8 kg per capita textile consumption[4].

To tackle this challenge, on November 17th, 2021 , the EU Commission introduced a proposal for the revision of the Waste Shipment Regulations which aims at streamlining waste management within the EU for reuse and recycling, and at guaranteeing that waste sent beyond borders is handled in an environmentally responsible manner[2].

However, the proposal calls for the adoption of additional delegated acts to specify criteria for distinguishing used textiles from waste – still absent in the current Combined Nomenclature, yet essential to prevent the shipment of used textiles to the Global South as a waste management strategy[3].

EU exports of used textile (2000, 2010 and 2019, by weight)[4]



(1) European Parliament (2023); (2) European Environment Agency (2023); (3) Commission proposal for a regulation of the European Parliament and of the Council on shipments of waste and amending Regulation (EU) No 1257/2013 and (EU) No 2020/1056, COM(2021) 709; (4) The Or Foundation (2023)

INCREASED MONITORING BURDEN FOR CUSTOM OFFICES DUE TO NEW EU REGULATIONS ADDS TO EXISTING INEFFICIENCIES IN BORDER CONTROLS

As of today, nearly 1,870 customs offices are active within the EU with 82,431 full time equivalent workers, operating 24 hours every day of the year. In 2022, they managed the import, export, and transit of approximately 1.11 billion items related to international trade[1].

With the new legislation proposals on Waste Shipment, Ban on Products made with Forced Labour and Ecodesign on Sustainable Products, and with the Carbon Border Adjustment Mechanism and Deforestation Regulation, the European Union is placing significant additional load on customs in relation to fashion sector[2], which constitutes 5.25% of total imports[3].

This, adds on to an already complex management of border controls. The European Court of Auditors identified a disincentive for Member States (MS) to conduct customs controls, as those performing them face financial repercussions if unable to successfully recover funds from importers, while MS that do not carry out controls may avoid these adverse consequences[4]. Moreover, data reveals a substantial disparity in control levels among EU countries, ranging from less than 1% of import declarations in certain countries to exceeding 60% in others.

Within this context, in May 2023, the Commission proposed a reform of EU Customs Union, with the aim of streamlining customs procedures for businesses, replacing traditional declarations with data-led approach to import supervision. The reform is also expected to equip authorities with the necessary tools and resources to conduct effective controls[5].

5

Adopted or proposed pieces of legislation which affect sustainability in fashion and rely on customs' monitoring[2]

FROM 1% TO 60%

Variation in the level of import declarations controls among Member States[6]

65%

The share of e-commerce imports that are currently undervalued to less than €150 to avoid custom duties[7]

(1) European Commission (2023); (2) Waste Shipments Regulation Proposal, Proposal for Ecodesign for Sustainable Products Regulation, Carbon Border Adjustment Mechanism Regulation, Regulation on Prohibition of Deforestation, Prohibition of Forced Labour Regulation; (4) EU Costum Reform (2023); (5) European Court of Auditors (2017); (6) European Court of Auditors (2021); (7) European Commission EU Customs Reform: A data-driven vision for a simpler, smarter and safer Customs Union (2023)

REFERENCES TO LEATHER IN EU TEXTILE STRATEGY NORMS APPEAR CONFUSING: SOME EXPLICITLY MENTION IT, OTHERS CLASSIFY IT AS "TEXTILE"

Within the EU Textile Strategy, the European Union has not acknowledged the specificities of the leather sector, by instead identifying it as just one segment of the so-called broader "textile ecosystem", which comprises textiles, clothing, leather, and footwear.

This confusion is further reflected in the various legislative measures derived from the Strategy. While the Proposal for a Corporate Sustainability Due Diligence Directive constitutes the sole piece of legislation which explicitly recognizes leather as a separate sector from textiles, neither the Revision of the Waste Framework Directive nor the Ecodesign for Sustainable Products Regulation proposal recognize leather as a distinct category within their frameworks.

This misclassification results in a lack of clarity about the applicability of the norms and their suitability for the diverse industrial components within this ecosystem[1].

Notably, among the 93 recommendations outlined in the May 2023 European Parliament Report on the EU Textile Strategy, none of them specifically mentions the leather sector[2], which constitutes another failed opportunity to make clarity and address its unique concerns and challenges.

Inclusion of leather within the EU Textile Strategy and relevant legislative proposals arising from it[3]

LEATHER INCLUDED IN THE CATEGORY OF TEXTILES	LEATHER MENTIONED ALONGSIDE TEXTILES
EU Textile Strategy	Proposal for a Corporate Sustainability Due Diligence Directive
Proposal for a Revision of Waste Framework Directive	
Proposal for Ecodesign on Sustainable Products Regulation	

(1) Euroleather (2023); (2) EU Parliament Report on an EU Strategy for Sustainable and Circular Textiles (2023); (3) The European House Ambrosetti elaboration from mentioned legislative acts

4.
GLOBAL BUSINESS RESPONSE

KEY MESSAGE
4.1

Ten years after the tragic event in Rana Plaza that shed light on apparel workers rights and poor working conditions **it is still difficult to identify concrete results** in terms of actual improvements.

KEY MESSAGE
4.2

When it comes to sustainability pledges, **a discrepancy persists between public commitments, internal accountability and actual performance.** This might also be the cause for a significant increase in ESG related lawsuits in the market.

KEY MESSAGE
4.3

The increase in corporate emissions from 2021 was due to a spread of climate targets adoption and the improvement of calculation methods, all while the prices in the voluntary carbon market decline.

KEY MESSAGE
4.4

Sustainable finance tools adoption in the fashion industry is still rare while investments in secondhand platforms are driving the expansion of this segment. **Retailers are putting pressure on upstream actors**, but less than half of them has implemented a structured sustainability approach.

KEY MESSAGE
4.1

TEN YEARS AFTER THE TRAGIC EVENT IN RANA PLAZA THAT SHED LIGHT ON APPAREL WORKERS RIGHTS AND POOR WORKING CONDITIONS **IT IS STILL DIFFICULT TO IDENTIFY CONCRETE RESULTS** IN TERMS OF ACTUAL IMPROVEMENTS.

AFTER THE RANA PLAZA COLLAPSED, COMPENSATIONS MECHANISM FOR VICTIMS WERE DEVELOPED, ALTHOUGH BASED ON INADEQUATE WAGES

2013, BANGLADESH[1]

The Rana Plaza Coordination Committee

To provide proper and adequate financial compensation to the victims of the Rana Plaza disaster.

The Accord for Fire and Building Safety[1]

To enhance safety and health standards. Binding agreement among 200 brands, trade unions, and the garment industry.

2014, INTERNATIONAL[1]

Rana Plaza Donors Trust

To collect contributions and hold them in trust, chaired by the International Labour Organization (ILO). Contributions primarily coming from international clothing brands and retailers (33).

2015, BANGLADESH[1]

The Rana Plaza Arrangement

To provide a mechanism to assess the economic damage suffered by workers, based on lost wages and medical expenses.

2019, BANGLADESH[1]

RMG Sustainability Council

To conduct structural, electrical, fire, and boiler safety inspections. An unprecedented private national agreement by industry, global brands, and trade unions.

2021, INTERNATIONAL[2]

International Accord for Health and Safety in the Textile and Garment Industry

To identify and address human rights risks in their operations while implementing safety measures. Voluntary agreement by fashion companies.

After the Rana Plaza collapse in Bangladesh, NGOs and government agencies initially provided support to survivors, but existing compensation regulations fell short of international standards. The resulting “Rana Plaza Arrangement” was a voluntary compensation agreement, not a legal settlement. It adhered to ILO standards, focusing on lost wages, funeral expenses, and medical care costs, but although compensation for “pain and suffering” was not included[3]. The compensation mechanism distributed approximately $30[4] million among 5,109 beneficiaries, averaging $6,000 per person. To put this in perspective, considering the living wage in Bangladesh in 2015, these beneficiaries received an amount equivalent to six years of work[5].

However, this compensation proved insufficient, as it failed to consider psychological damages for pain and suffering and, above all, it used an inadequate wage base for calculation. The compensation deal recognized workers as right holders but did not address questions of responsibility for the collapse. This “rights-based” framework was appealing to labor groups, differentiating it from previous relief agreements. Nonetheless, the agreement did not hold industry actors accountable, as legal responsibility was excluded. Families of Rana Plaza victims pursued legal action separately, but success was limited[3]. This underscores the urgency of revising the compensation system and ensuring fair wages for all garment workers.

(1) The Rana Plaza Arrangment.org (2023); (2) International Accord, Working with brands, factories, and workers for a safer textile and garment industry; (3) R. Prentice, Labour Rights from Labour Wrongs? Transnational Compensation and the Spatial Politics of Labour Rights after Bangladesh’s Rana Plaza Garment Factory Collapse (2021); (4) The Guardian, After two years, the Rana Plaza fund finally reaches its $30m target (2015); (5) Based on Asia Floor Wage Alliance estimation

TEN YEARS AFTERWARDS, GARMENT WORKERS ARE STILL BEING EXPLOITED AND LABOR RIGHTS HAVE BEEN DECLINING

The aftermath of the Rana Plaza collapse led to increased scrutiny of supply chains and working conditions in the fashion industry, ultimately leading to the development of the European Corporate Sustainability Due Diligence Directive proposal.

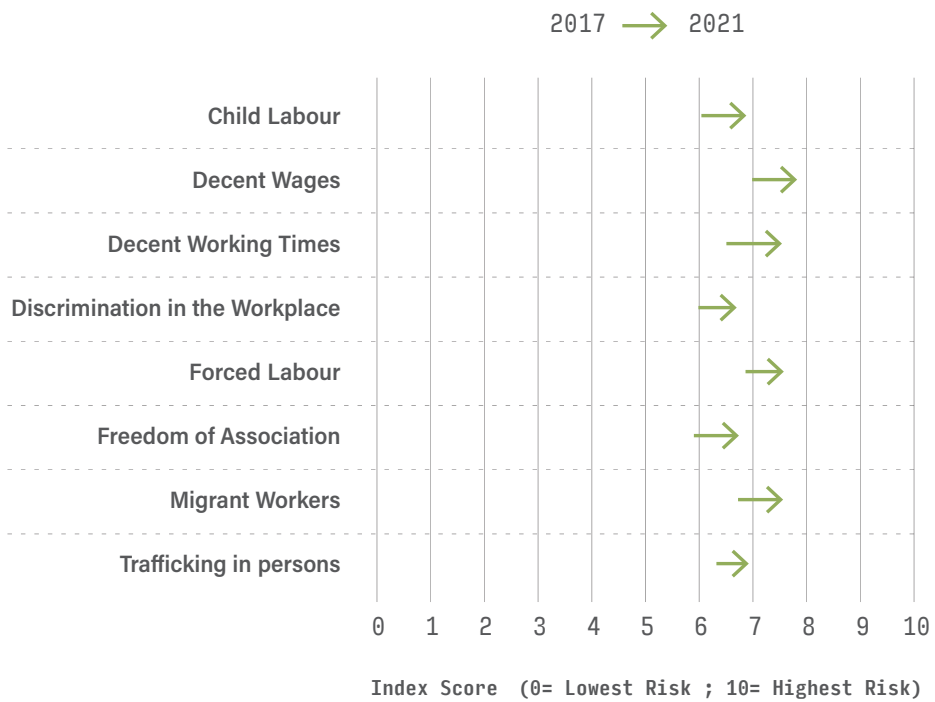
However, despite this progress, ten years after the Rana Plaza disaster garment workers are still being exploited. The global fashion industry employees over 75 million workers globally, many of whom lack formal employment contracts, stable work schedules, or labor law protections[1].

Less than 2% of workers who make clothes earn a living wage[2], meaning that only 1.5 million receive an adequate salary. Workers in the international garment industry often endure exhausting overtime hours, forced by factory managers, with little choice to refuse due to low wages. This leads to health problems and particularly affects women who juggle factory work and household responsibilities. Managers push for 10 to 18-hour workdays, even seven days a week during peak times[3].

Moreover, despite Rana Plaza shedding light on the security and safety aspects at the factories, since then at least 109 other buildings in Bangladesh collapsed, resulting in the death of 27 workers[4].

Overall, labor rights violations in the global fashion supply chain have worsened in all categories, resulting in increased exposure to human rights violations risk exposure, especially concerning forced labor, modern slavery, and child labor[5].

Risk score across 11 key sourcing locations[3]



(1) UNECE, UN Alliance aims to put fashion on path to sustainability (2018); (2) The Lowest Wage Challenge, State of The Industry: Lowest Wages to Living Wages; (3) Clean Clothes campaign, Working hours and overtime: 96-hour workweeks: (4) Human Rights Watch, A decade after Rana Plaza safety flaws persists (2023); (5) Elaboration of The European House - Ambrosetti on Verisk Maplecroft & Business of Fashion Data (2021)

KEY MESSAGE
4.2

WHEN IT COMES TO SUSTAINABILITY PLEDGES, **A DISCREPANCY PERSISTS BETWEEN PUBLIC COMMITMENTS, INTERNAL ACCOUNTABILITY AND ACTUAL PERFORMANCE.** THIS MIGHT ALSO BE THE CAUSE FOR A SIGNIFICANT INCREASE IN ESG RELATED LAWSUITS IN THE MARKET.

DURING COP27, FASHION INDUSTRY CHARTER SIGNATORIES EXHIBITED PROGRESS IN COLLABORATIONS, BUT THERE IS ROOM FOR PERFORMANCE IMPROVEMENT

The fashion industry has joined forces to combat climate change with the Fashion Industry Charter for Climate Action. This collaborative initiative, which gained momentum during COP26 and carried over to COP27, prioritized transparency and traceability within the sector1.

Several discussions highlighted the importance of collaboration to accelerate climate action in the fashion industry. “The Sustainability Pledge” and the initiative’s “Call to Action” aim at addressing environmental and social issues, with many pledges and partners involved. UNECE is planning to establish an Advisory Board and a Community of Practice for monitoring and testing these pledges[1].

As of February 22, 2023, 99 companies including brands, suppliers, and retailers have committed to the Fashion Industry Charter for Climate Action.

The Fashion Charter signatories have demonstrated advancements since 2020 in terms of reporting and disclosure instruments including Scope 3, identification of GHG reduction targets, higher adoption of renewable energy targets, enhanced engagement of supply chains in sustainable practices, and improved climate governance accountability[2].

Signatories outperform industry average on climate change disclosure, highlighting the urgent need for faster action and collaboration[2]. However, there is limited evidence to suggest major improvements in performances across the various targets. In particular, in 2022 only 13% of members reported to have achieved at least a 30% reduction in Scope 3 emissions and only 6% achieved a 50% reduction. These findings suggest room for higher ambition in emissions reduction efforts.

Key progresses of the 99 Fashion Industry Charter signatories in 2022[2]

89%	**met Fashion Charter’s reporting requirement**
45%	**set Science-based Climate Targets**
77%	**calculate Scope 3 emissions**
80%	**say that they are engaged with their value chain partners**
62%	**have a board-level oversight of climate related issues and strategy**
42%	**set a measurable 100% renewable energy target**

(1) UNECE, COP27: How the textile and clothing industry could do its bit in the fight against climate change (2022); (2) UNFCCC & CDP, Fashion Industry Charter for Climate Action Report Progress (2023)

THE DISCONNECTION IN SUSTAINABILITY-PAY: GREENWASHING THROUGH IRRELEVANT SUSTAINABILITY-RELATED REMUNERATION TARGETS

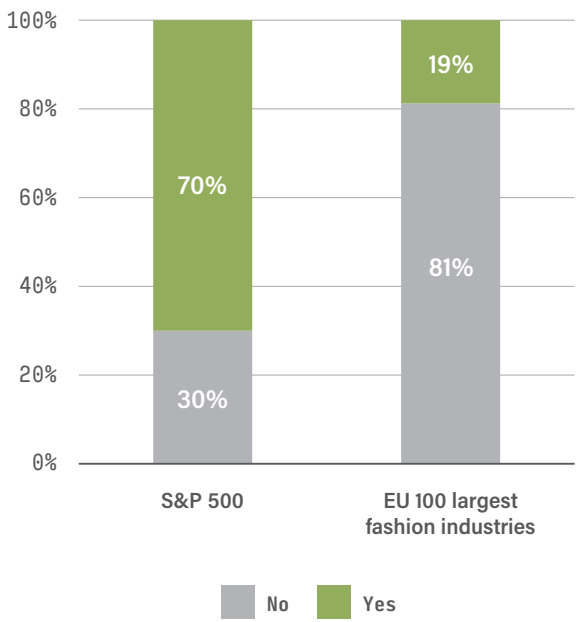
Companies face increasing pressure to prioritize environmental and social goals, but executive compensation often doesn't align. Linking executive compensation to ESG topics is considered a priority for achieving sustainability goals because it can help align the actions of top executives with the long-term sustainability objectives of the organization, promote responsible behavior, and enhance transparency and accountability to stakeholder[1].

United States had the lowest adoption rate at 16.5%, while the United Kingdom and France had higher rates at 44% and 59%, respectively. Indeed, adoption is more common in areas with stricter ESG regulations and greater public concern for environmental and social issues, such as the European Union[2]. This is also true for the fashion industry: in the Planet Tracker sample, all of the European businesses have a connection between sustainability and performance-based compensation. Asia lags, while America is a mixed bag[3].

Nonetheless, fashion sector significantly trails behind large S&P-listed companies when it comes to integrating ESG executive compensation. Specifically, in the analyzed sample of 112 fashion industry, only 18.75% of companies have ESG-based executive compensation, whereas in the S&P list, 70% of companies have successfully integrated ESG into their executive compensation structures3, with spikes in the energy and utilities companies where such share reaches 100% and 96%, respectively. Noteworthy, the analysis shows that family-owned businesses are more likely to link performance-based remuneration to sustainability in some way[2,3].

However, despite having a sustainability-related remuneration target is a first step toward stronger commitments, but if the correlation between compensation and ESG targets lacks quantifiability, there may be a significant risk of greenwashing[3].

Incidence of companies integrating ESG criteria into executive variable remuneration[4] (%)



(1) Harvard Business Review, Linking Executive Pay to Sustainability Goals (2023); (2) Forbes, Despite ESG Backlash, Linking ESG Goals To Pay May Help The Planet (2023); (3) Planet Tracker, Textile Compensation (2023); (4) The European House-Ambrosetti elaboration of Semler Brossy, ESG+incentives 2022 and analysis 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

REGULATION ON GREEN CLAIMS IS ON THE RISE, AND SO ARE ESG RELATED LITIGATIONS IN TEXTILE, LEATHER AND FASHION INDUSTRIES

In 2022 and 2023, significant developments have occurred in the regulation of "green claims" in the UK, the US, and the EU, marking a pivotal period in the fight against greenwashing. Indeed, Green labels are often confusing for consumers due to their unreliability, leading to low trust and potential deception. The surge in the introduction of new laws to combat the issue of misleading Green claims, aims to help consumers make informed choices and support businesses striving for environmental sustainability[1].

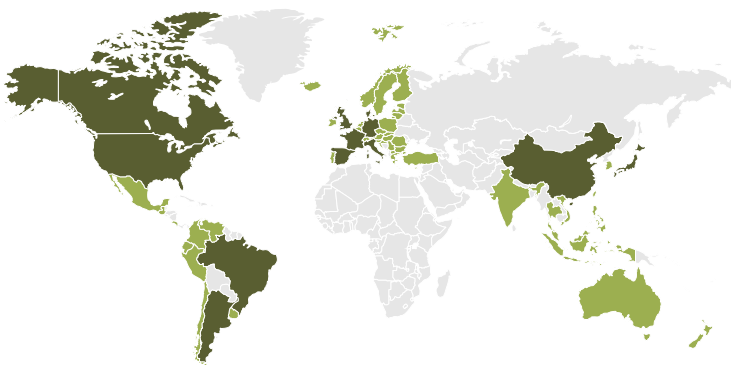
These developments also signify a growing focus by authorities on combating greenwashing, making it crucial for companies to understand and adhere to these evolving regulations, as breaches may lead to significant fines and impact corporate reputation.

As of September 2023, more than 40 countries worldwide have introduced rules or proposals of regulations on Green Claims and, more in general, communications related to sustainability[2]. Indeed, in addition to the 27 European Union member states considering the Green Claim Directive Proposal, 15 non-EU countries have either enacted or proposed laws specifically focusing on sustainability-related measures[2].

In the US alone, product-related fraud complaints alleging false or misleading environmental claims increased by 280% from 2017 to 2022, with a total of 38 in 2022 alone[3].

Moreover, while the rise in fashion-related legal disputes from 2019 to 2023 may not be equally significant, it is still noticeable, and it shows a growing trend that is projected to persist in the future[5]. According to the analysis herein, in the countries covered by Green claims regulation, ESG disputes against companies in the textile and leather and fashion industries have occurred in at least 10 of the major economies[2].

Existing Green Claims Regulation worldwide and distribution of ESG litigation in major global economies[2]



(1) European Commission, Green Claims (2023); (2) The European House-Ambrosetti elaboration on data from Sabine Centre for Climate Change Database and Climate Change Laws of the World Database; (3) Bloomberg, 2023; (4) We consider the European Union fully covered despite the pending Green Claims Directive. Results may vary slightly due to ongoing mapping and quality checks before the final report's publication; (5) The Fashion Law, The Evolving State & Effects of ESG Litigation (2023)

ALTHOUGH COMPANIES IN THE SECTOR ARE DRAWING ATTENTION, THE CONSEQUENCES ARE NOT YET COMPROMISING

The analysis herein shows that 28 ESG disputes in textile and leather value chains have occurred worldwide, divided between greenwashing, Per-and polyfluoroalkyl substances (PFAS) and Human Rights litigations or desputes[1,2,3].

Greenwashing litigations arise when companies are not concrete in their Green Claims and do not make publicly available the data backing up their representations, therefore making unqualified environmental benefit claims.

PFAS are man-made chemicals used in various products for their resistance to heat, stains, and more. They persist in the environment, are found in many everyday items, and are a health concern. Regulators are taking action to control their use, including in clothing[4].

In an effort to hold the global fashion industry legally responsible for human rights violations, especially in countries where apparel are being manufactured, legal complaints are being launched against some of the biggest fashion companies in the world.

In 2020, the Dutch Consumer and Market Authority initiated a study on corporate sustainability claims. In 2022, they sent letters to over 60 companies in the clothing sector as part of this investigation, among a total of about 170 companies contacted[3].

Moreover, the United States is experiencing a higher number of ESG litigation cases in the fashion sector, probably as a response to U.S. Federal Trade Commission Guide[5].

The outcome of these legal disputes may determine in the short term how environmental advertising and business sustainability strategies develop in the future.

28

cases of ESG disputes in textile and leather value chains registered globally between 2019 and 2023[1,2,3]

7

lawsuits involved 5 big brands[1,2,3]

0

companies were subjected to penalties for making misleading green claims[1,3]

(1) The European House Ambrosetti Elaboration on The Sabine Centre Database (2023); (2) Peikins C., ESG and the Apparel Industry: Always in Fashion (2023); (3) The European House – Ambrosetti elab. on data from Greenberg T. S. M. from pub. available info. Results might change before the publication of the final report as the mapping are still ongoing; (4) Sourcing Jour., Clothing Companies Are Being Targeted with PFAS Liability (2023); (5) Federal trade Comm., Environmentally Friendly Products: FTC's Green Guides (2023)

KEY MESSAGE
4.3

THE INCREASE IN CORPORATE EMISSIONS FROM 2021 WAS DUE TO A SPREAD OF CLIMATE TARGETS ADOPTION AND THE IMPROVEMENT OF CALCULATION METHODS, ALL WHILE THE PRICES IN THE VOLUNTARY CARBON MARKET DECLINE.

CDP CERTIFIED COMPANIES ARE INCREASING AND WITH THEM THE CALCULATION PERIMETER OF SCOPE 3 EMISSIONS

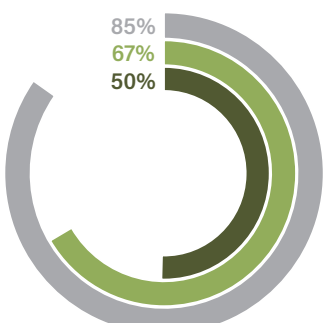
The number of companies reporting their Scope 1, 2, and 3 emissions increased significantly from 138 in 2021 to 311 in 2022. More precisely, in 2022 85% of CDP certified companies disclosed Scope 1 emissions, 67% reported Scope 2 emissions, and 50% reported Scope 3 emissions1. However, all emissions showed higher incidence, especially in scope 3.

Upon examining the absolute figures for the 58 companies that reported Scope 3 emissions for both years, it can be observed a significant 42% increase in scope 3 emission[1].

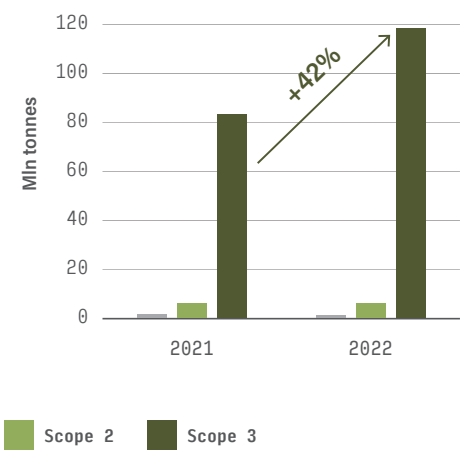
Many companies are increasingly embracing advanced calculation methods to enhance their comprehensive measurement of emissions. This approach extends beyond the conventional aspects of emissions accounting, by encompassing a wide spectrum of factors. These factors include the emissions associated with the production of goods and services, transportation activities, and waste generation. Moreover, this approach delves into more intricate realms, such as handling and treatment of products at the end of their lifecycle[1].

However, achieving year-on-year data comparability can be challenging due to the multiple categories and methodologies used in emissions calculations across different organizations. Despite this challenge, an upward trajectory in emissions data is emerging as a trend. This tendency underscores the heightened focus that companies are placing on assessing the environmental impact of their supply chains.

CDP disclosures of Apparel stores, design & manufacturing, Textiles & fabric goods, luggage & bags 2022, by scope (n=311 companies)[1]



CDP emissions of Apparel stores, design & manufacturing, Textiles & fabric goods, luggage & bags 2021 and 2022, by scope (n=58 companies)[1]



(1) The European House Ambrosetti, Elaboration on Carbon Disclousure Project Data granted by Carbonsink (2023)

THE NUMBER OF COMPANIES SETTING TARGETS HAS DOUBLED AND THE NUMBER OF NEW COMMITMENTS HAS HALVED

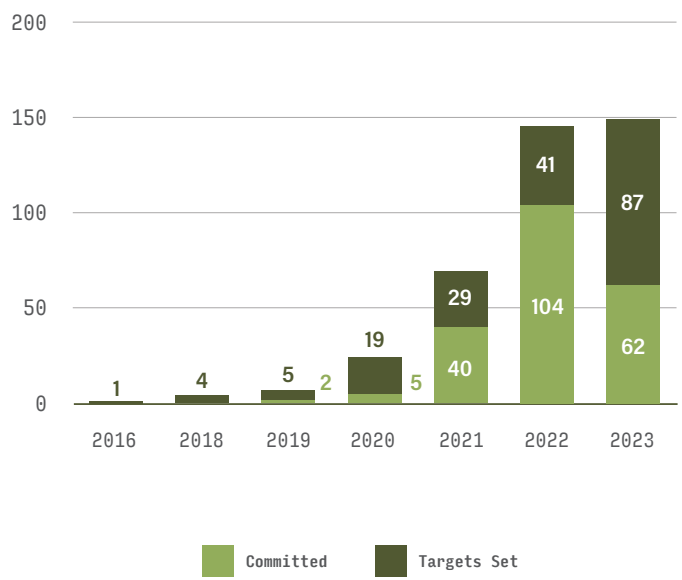
In 2022, the fashion industry witnessed significant sustainability commitments. Key initiatives included 348 companies adopting Science Based Targets and 189 embracing the Business Ambition for 1.5°C, aiming at net-zero emissions. Starting in 2023, the Science Based Targets initiative (SBTi) has implemented a stringent requirement for companies to commit to their sustainability targets within a maximum period of two years. Failure to do so will result in their removal from the initiative. As a matter of fact, three companies in the textile sector have been removed from the SBTi[1].

In 2023, an increasing number of companies is actively setting sustainability targets. This surge in target-setting may be attributed to the newly implemented policy by the SBTi; on the other hand, this more stringent policy appears to have influenced the concurrent decline in the enrollment of new companies into the SBTi program. Indeed, as of October 2023 just 62 companies have committed to the SBTi, 40% less than in 2022.

As for the rise in companies setting target, it's important to underline that in 2022 over 60%[2] of Fashion Pact members embraced science-based goals or gained SBTi approval[2], as requested by the requirements of the alliance subscription.

Moreover, among the 505 companies that hold the CDP certification, a breakdown reveals that 112 of them have actively engaged as Carbon Credit Buyers, while 96 have become members of the Climate Ambition Alliance for Net Zero 2050. Additionally, 58 of these certified companies have made explicit commitments to achieve Net Zero emissions. Another 33 companies have taken the initiative to self-commit to achieving Climate Neutral status, while 23 have joined the RE100 initiative with a pledge to transition to 100% renewable energy sources. Notably, nine companies have independently committed to achieving the goal of 100% Renewable Energy[4].

Increase in Textiles, Apparel, Footwear and Luxury good businesses engaged in SBTi worldwide 2016-2023[1]



(1) The European House Ambrosetti, Elaboration on Science Based targets Initiative (2023); (2) As of today, the Fashion Pact has 80 members representing over 200 brands; (3) Women Wears daily, H&M Group's Helena Helmersson Named The Fashion Pact Co-Chair (2023); (4) The European House Ambrosetti, Elaboration on Carbon Disclousure Project Data granted by Carbonsink (2023)

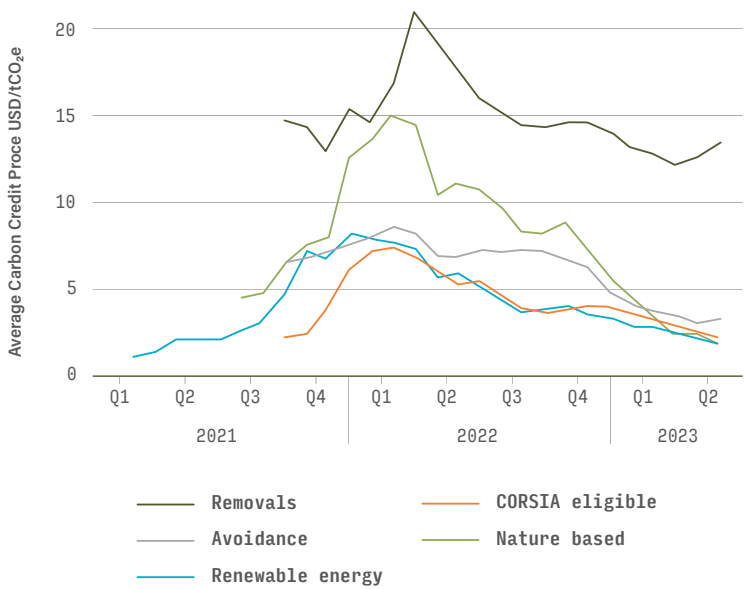
THE VOLUNTARY CARBON OFFSET MARKET, A CRUCIAL TOOL FOR ACHIEVING DECARBONIZATION, IS EXPECTED TO GROW ALONGSIDE THE DECLINE OF PRICES

The Voluntary Carbon Market (VCM) is a platform where companies and individuals can buy and sell carbon offset credits. These credits represent the reduction of one metric ton of carbon dioxide or greenhouse gas emissions. Big companies use the VCM to achieve carbon neutrality by investing in projects that reduce emissions when they can't meet their emission reduction goals. It's a way to balance their carbon footprint and fight climate change[1].

The voluntary carbon-offsets market is expected to grow from $2 billion in 2022 to around $100 billion in 2030 and $250 billion by 2050, with 3,800 additional projects in the pipeline[2]. Despite this growth projections, since January 2022, the cost of voluntary carbon credits has dropped in all categories of initiatives, returning to 2021 similar price levels. This is likely due to factors that influence credit quality and critical economic conditions in the international environment[3]. Moreover, in early 2023 an investigation raised doubts about the effectiveness of forest carbon offsets used by major fashion companies. This is raising concerns about companies claiming to be "carbon neutral"[4]. Responses to the allegations argue that the studies behind the accusations rely on inaccurate synthetic controls that do not represent the project area's actual conditions[5]. Indeed, Synthetic controls compare projects to control scenarios using covariates, but this methodology it's not suitable for all projects due to the challenge of finding matching points inside and outside the project area at the start of the project[5].

The Voluntary Carbon Market remains, as for now, the sole funding mechanism at a global scale for climate change mitigation. Therefore, renowned organizations such as the Science Based Target initiative are actively endorsing and supporting multi-stakeholder initiatives in order to enhance calculation methodologies for credit allocation and effectively address disputes surrounding this tool[6].

Prices of standardized carbon credit contracts 2021–2023[3]



(1) Carbon Credits, What is the Voluntary Carbon Market? (2023); (2) Morgan Stanley, Where the Carbon Offset Market Is Poised to Surge (2023); (3) World Bank, State and Trends of Carbon Pricing (2023); (4) The Guardian, Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows (2023); (5) Verra, Verra Response to Guardian Article on Carbon Offsets (2023); (6) Science based targets initiative public consultation on beyond value chain mitigation (2023)

KEY MESSAGE
4.4

SUSTAINABLE FINANCE TOOLS ADOPTION IN THE FASHION INDUSTRY IS STILL RARE WHILE INVESTMENTS IN SECONDHAND PLATFORMS ARE DRIVING THE EXPANSION OF THIS SEGMENT. **RETAILERS ARE PUTTING PRESSURE ON UPSTREAM ACTORS,** BUT LESS THAN HALF OF THEM HAS IMPLEMENTED A STRUCTURED SUSTAINABILITY APPROACH.

IN A CROWDED ESG RATINGS MARKET, CORRELATION BETWEEN RESULTS INCREASES, WHILE EU PUSHES FOR STANDARDIZATION AND STRICTER RULES

ESG ratings have become a densely crowded market, with more than 600 distinct ratings and rankings in existence[1]. This proliferation can be attributed to the wide array of methodologies employed by various rating agencies, coupled with a constantly evolving market featuring new entrants. Furthermore, the absence of standardized rating methodologies and criteria adds to the prevailing confusion within the market. The lack of a uniform set of benchmarks makes it particularly difficult for stakeholders to make meaningful comparisons and assessments of ESG performance. This, in turn, impedes the broader adoption of sustainable practices across industries[2].

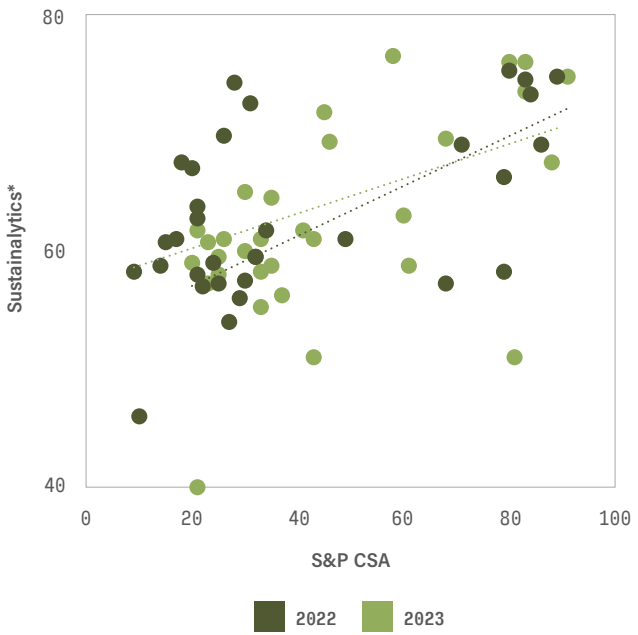
However, recent consolidation trend has led to seven major rating agency groups dominating the market, primarily international mainstream financial services agencies[3]. This consolidation has resulted in increasing divergence in methodologies and data, causing a decline in correlation between ratings.

When examining Sustainalytics data, companies have enhanced their performance by 2% between 2022 and 2023, and in general they all show a low or negligible risk exposure. Conversely, in the case of S&P CSA, we observe a broader spectrum of scores, with an average improvement of 12%[4].

Moreover, it's worth noting that not all companies have demonstrated improved performance in both ratings. In fact, out of the 22 companies that enhanced their S&P rating, only 15 experienced a similar improvement in their Sustainalytics one. This results in a decreased correlation between the two ratings from 2022 to 2023, from 0.55, to 0.513. This can be attributed to a combination of factors, including a continuous process of improvement from year to year and the fact that many companies had received their first ratings in 2022[4].

New EU rules aim to revolutionize ESG ratings, ensuring reliability, comparability, and combatting greenwashing[5].

Textiles, Apparel & Luxury good ESG ratings missing correlation 100 = max score in the industry in 2022 and 2023[4]



* The Sustainalytics rating scale differs, without which the distribution would appear less discernible

(1) Corporate Citizenship (2022); (2) ESMA, ESG ratings: Status and key issues ahead (2023); (3) JRC EC, Measuring and disclosing environmental, social and governance (ESG) information and performance; (4) The European House Ambrosetti, Elaboration on Sustainalytics and DJSI Data (2023); (5) European Commission, Sustainable Finance: Commission takes further steps to boost investment for a sustainable future (2023)

FASHION INDUSTRY ADOPTION OF ESG BONDS IS STILL LIMITED AND NEEDS TO HAVE MORE AMBITIOUS KPIS FOR LABOR RIGHTS AND PLANET PRESERVATION

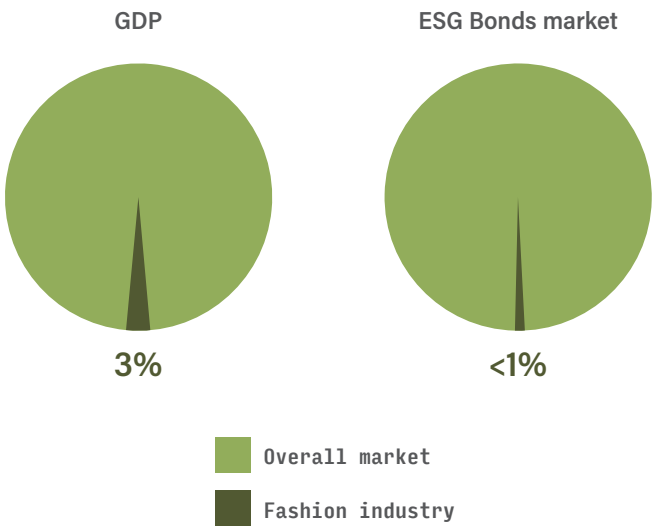
The fashion industry is increasingly using GSS (Green, Sustainable, and Social) bonds and SLBs (Sustainability-linked bonds) to tackle environmental and social challenges[1,2]. As a matter of fact, these GSS bonds are performance-based bonds that enable issuers to make explicit commitments to improve sustainability outcomes in the future, meanwhile enjoying lower interest rates on the bond[2].

Despite their growing popularity, the fashion sector's adoption of these bonds remains limited, resulting in a small cumulative amount of bonds issued. Indeed, the analysis herein has revealed the presence of 17 bonds issued by the fashion industry. Among these, six originate from luxury companies, collectively representing approximately €3 billion, while the mass market/fast-fashion segment accounts for €2.5 billion. This spectrum includes five green bonds, one social bond, and eleven sustainability-linked bonds, with the luxury sector predominantly contributing to the latter category[3].

The limited issuance of ESG bonds by fashion companies and the decreasing adoption of these financial instruments in 2020/2023 may potentially be attributed to a decline in the decrease in the Greenium, which removes the previous interest savings advantage of issuing sustainability-related bonds[4]. More precisely, fashion companies were initially able to secure favorable financial terms by issuing ESG bonds, as investors were willing to pay a premium for bonds that committed to benefiting the environment and society. However, after 2021, investors were less interested in paying extra for these bonds, and at the same time, interest rates on all bonds started to go up. This altered landscape diminished the attractiveness of ESG bonds for fashion companies, as they were no longer obtaining the advantageous terms they once enjoyed. Consequently, the returns on ESG bonds closely resembled those of regular bonds[3].

Moreover, concerns arise on the effectiveness of SLB as an instrument of debt, and experts suggest more ambitious KPIs that focus on issues like labor labor rights[4,5].

Fashion industry incidence in terms of global GDP and ESG related bonds issuance on the market, 2019-2023[3]



(1) Racconteur, Sustainability-linked finance is fashion's latest trend, but will it work? (2022); (2) WEF, What are sustainability linked bonds and how can they support the net-zero transition? (2022); (3) The European House Elaboration on proprietary Data and Kairos Partner Data; (4) OECD, Green, Social, Sustainability and Sustainability-linked bonds in dev count.: how can donors support public sector issuances? (2022); (5) Planet Tracker, Ethical debt is the new bespoke fashion (2021)

THE SECOND-HAND LUXURY MARKET SEEMS BOOMING, ATTRACTING BILLIONS IN INVESTMENTS, YET PRECISE VALUATIONS REMAIN ELUSIVE

The second-hand luxury market seems to have been growing rapidly, with a 28% increase in 2022 while the market was valued at approximately $24 billion in 20182. However, accurately determining the dimensions of this market presents difficulties attributed to factors such as the inclusion of luxury watches and handbags in the computations, as well as uncertainties surrounding sector demarcations.

Nevertheless, the second-hand market is vibrant, with new entrants meeting rising demand and significant investments pouring in. Indeed, market saturation has led to consolidation, as existing players merge to capture larger market shares. The analysis reveals that between 2021 and 2023, ten mergers and acquisitions occurred within the sector[3]. As far as investments are concerned, these are primarily directed towards resale marketplaces, fashion and luxury rentals, e-commerce, technology, authentication services, investment firms, and venture capital[3].

Moreover, the luxury industry as well has been actively embracing the second-hand market in the last years, with prominent fashion industry leaders making significant inroads into this sector. There may be several compelling reasons behind this shift, some of which may be interconnected. Firstly, the Covid-19 pandemic led to reduced revenues for all brands, including luxury labels, resulting in an excess of unsold inventory. Additionally, the European Union's regulatory pressures played a pivotal role by discouraging the disposal of unsold goods[4].

In 2023, there were 15 investments in the secondary market totaling $362 million. In 2022, 12 resale-focused investments exceeded $249 million, with three-billion-dollar merger and acquisition deals. In 2021, 14 resale-focused investments surpassed $2 billion, accompanied by five-billion-dollar merger and acquisition deals[3].

145 brands have a resale shop[1]

3.4X resale shop growth[1]

10 merger and acquisitions of secondhand platforms from 2021 to 2023[3]

>$2.5bn resale-focused investment in total from 2021 to 2023[3]

(1) The European House Ambrosetti, Elaboration on threadUP The Recommerce Data (2023); (2) Boston Consulting Group, What an Accelerating Secondhand Market Means for Fashion Brands and Retailers (2022); (3) The European House Ambrosetti, Elaboration on The Fashion Law Data, A Running Timeline of Resale Funding and M&A (2023); (4) Fashion Retail Academy, How retailers are embracing the secondhand clothing market (2023)

AS THE SECOND-HAND MARKET CONTINUES TO GROW IN POPULARITY, ITS UNFAVORABLE PROFITABILITY PAINTS A CONTRASTING PICTURE

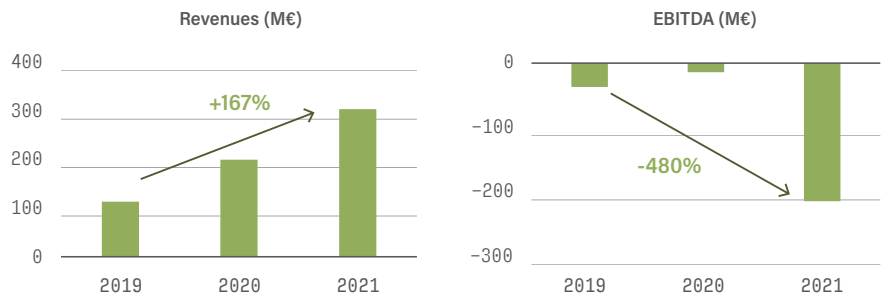
According to an analysis of the most prominent second-hand platforms spanning the years 2019 to 2021, a trend emerges in the market dynamics. During this period, the revenue of the mass-market platforms under scrutiny surged by 167.5%. This remarkable growth substantially outpaced the 51.36% expansion observed in the luxury sector within the same timeframe[1].

However, a more nuanced picture emerges when we delve into the realm of profitability. The second-hand mass-market segment reveals EBITDA losses amounting to approximately 480.1%. This glaring deficit raises important questions about profitability of this sector's business models, even in the face of skyrocketing revenue. On the flip side, the luxury sector, while exhibiting a remarkable 144% increase in revenue in the preceding year, faced a sharp 300% decline in profitability during 2021.

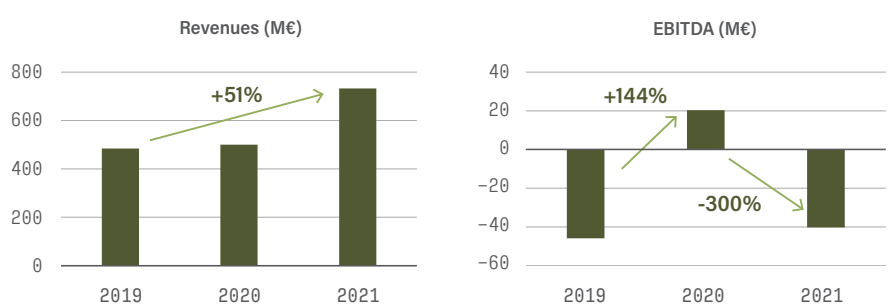
However, it is essential to underscore the limitations of this analysis. The scope of the analysis is constrained by several factors, most notably the dominance of a single player in the mass-market platforms, which accounts for nearly 80% of the total volume. This dominance hinders the ability to draw comprehensive conclusions, as financial data for the majority of platforms in this category remain elusive.

Thus, while findings are revealing, they should be interpreted with caution, bearing in mind the inherent limitations imposed by the available data.

Mass Market second-hand platforms[1]



Luxury Market Second-hand platforms[1]



(1) The European House Ambrosetti, Elaboration on Annual Reports data by ASOS Marketplace, *Beyond Retro, Curtsy,* Depop, Farfetch, *Fashionphile, Grailed, Heroine, LePrix, Letgo, Luxury Garage Sale, Luxury Promise, Material World, OfferUp,* Poshmark, *Rebelle, Refashioner, SnobSwap, StockX, Swap.com, The Luxury Closet,* The RealReal, *Threadflip, ThredUP, Tradesy, Vestiaire Collective,* Vinted. In italic companies for which data was not available on Orbis, Bloomberg and S&P

12 OUT OF 30 TOP GLOBAL RETAILERS SHOW A STRUCTURED SUSTAINABILITY DISCLOSURE, AND EXECUTIVES' PAY IS RARELY LINKED TO ESG GOALS

Being the first touch point for consumers, retailers hold a prime position in steering them toward responsible purchases. Indeed, they can promote sustainable garments and products, provide transparency about materials used and production practices, and, finally, encourage alternative consumption patterns through return initiatives and second-hand options.

In order to investigate leading global retailers' sustainability practices, The European House – Ambrosetti conducted a benchmark analysis on a selection of 30 international retailers, encompassing both e-commerce and brick and mortar stores[1]. The analysis shows that among these only 12 retailers regularly disclose their results through sustainability reports or on their website, while the remaining ones do not make commitments, or their commitments are qualitative and vague. Out of the 12 companies, 50% are mass retailers and 50% are luxury retailers, while 75% also own an in-house private label.

Of the surveyed companies that showcase a structured commitment to sustainability: 75% involve a member of the Board of Directors or a board-level committee in shaping sustainability strategy and reporting, while 83% have a manager or a dedicated function solely focused on sustainability matters. However, only 25% of the companies link executives' compensation to ESG performance.

Even if there is no unique method to define sustainable fashion products, sustainability commitment seems to be reflected also in consumers' offerings: 58% of the retailers feature a dedicated sustainable products section, provide filters for selecting responsible products or low impact materials or include sections for second-hand sale.

Out of 30 top global retailers:

12 regularly disclose their results through sustainability reports

8 involve a member of the Board of Directors or a board-level committee in shaping sustainability strategy and reporting

10 have a manager or a dedicated function solely focused on sustainability matters

3 link executives' compensation to ESG performance

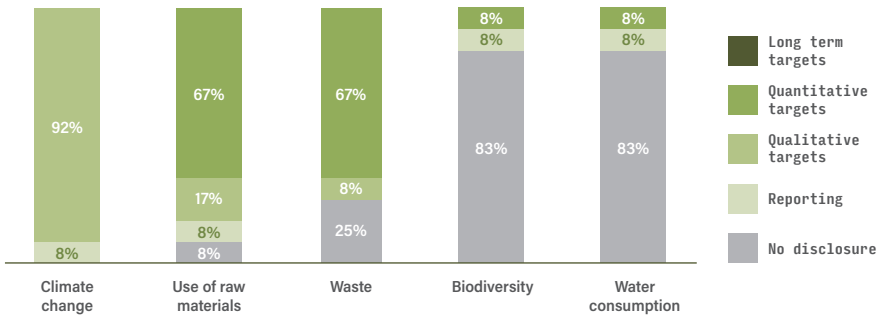
(1) The European House-Ambrosetti on publicy available data by *AK PLAZA*, Asos, *Baymen, Bloomindgale's*, Boozt, Decathlon, Farfetch, *Harrods, Harvey Nichols, Holt Renfew, House of fraser, Hyundai,* Isetan, *KaDeWE, Lane Crawford*, *Le bon marche, Lodenfrey,* Macys, Mytheresa, Neinman Marcus, Nordstrom, *Printemps, Rinascente, Saks, Selfridges, Shinsegae, Takashimaya, Vakko,* Ynap, Zalando. In italic companies that do not have a structured sustainability reporting approach

87% OF RETAILER SCOPE 3 EMISSIONS ARE SUBJECT TO DECARBONIZATION TARGETS BY 2030, EXERTING PRESSURE ON ALL UPSTREAM ACTORS

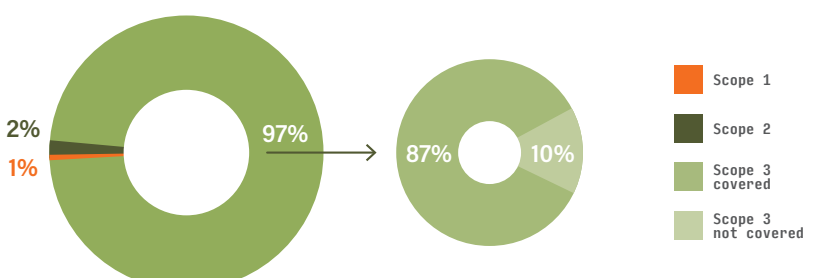
Within companies that address sustainability, much effort is directed on climate change: about 92% set quantitative targets on CO_2 emissions, while the remaining set just qualitative targets, among these the 58% have set targets or made commitments under the Science Based Target initiative. Among companies that set long term decarbonization targets, 75% include Scope 3 emissions goals. On average, direct emissions (Scope 1) constitute just the 1% of total greenhouse gas emissions, while indirect emissions (Scope 2) account for the 2%. Therefore, the majority of emissions, 97 %, stem from value chain activities (Scope 3). About 87% of this share is currently covered by long-term decarbonization goals set by retailers. Being out of their direct control, for these commitments to be effective, significant transformation throughout the supply chain is necessary, ultimately influencing upstream brand behaviors.

Regarding the use of raw materials, more than 67% of companies have set quantitative targets, even though few set goals for brands or appear to disclose information about the materials used by brands. On waste, 67% of companies are active setting long terms targets. Finally, when it comes to biodiversity and water, there appears to be less commitment, with only 8% establishing specific quantitative targets and reporting on these matters. Conversely, 83% of the sample does not address these topics.

Level of retailers' reporting and commitment on Environment[1]



Retailers' CO_2 emissions, by Scope and coverage of decarbonization targets [%]



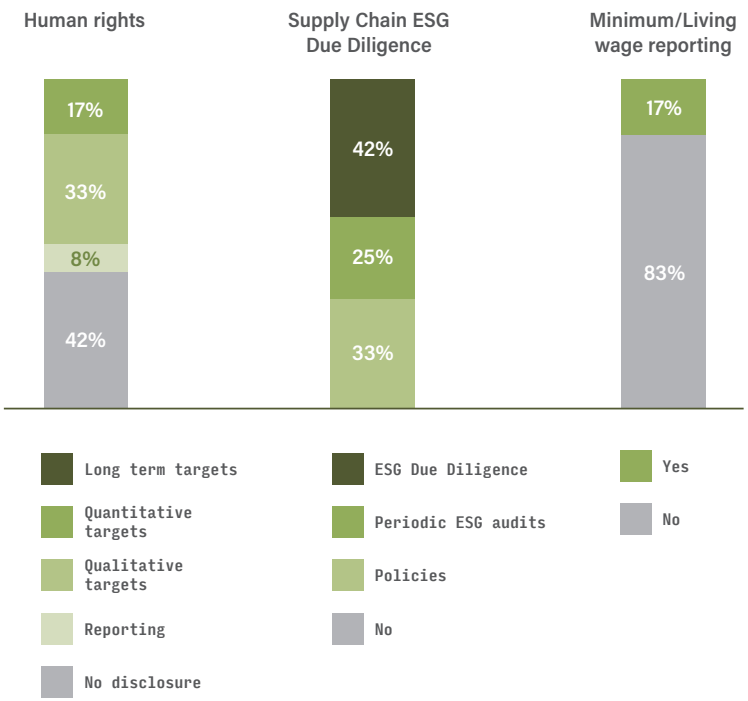
(1) The European House-Ambrosetti on publicy available data by *AK PLAZA*, Asos, *Baymen, Bloomindgale's*, Boozt, Decathlon, Farfetch, *Harrods, Harvey Nichols, Holt Renfew, House of fraser, Hyundai,* Isetan, *KaDeWE, Lane Crawford, Le bon marche, Lodenfrey,* Macys, Mytheresa, Neinman Marcus, Nordstrom, *Printemps, Rinascente, Saks, Selfridges, Shinsegae, Takashimaya, Vakko,* Ynap, Zalando. In italic companies that do not have a structured sustainability reporting approach

WHILE SUPPLY CHAIN MANAGEMENT CATALYZES A LOT OF RETAILERS' EFFORTS, SOCIAL ISSUES MANAGEMENT REMAINS OVERLOOKED

The analyzed retailers seem to prioritize close oversight of their supply chain: 58% companies have set targets to map supply chain or raw materials origin, among these 33% established quantitative targets. While 33% do not cover supply chain as a topic, 33% have adopted specific policies with guidelines that suppliers must respect and adhere to; beside policies, 33% and 42% 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. Out of the 12 retailers, 1 reports on the potential human rights impacts on the supply chain, but 17% and 42% of them establish forward-looking quantitative targets and qualitative targets respectively. However, just the 25% have put in place measures to ensure supply chain workers are paid a minimum or living wage.

Conversely, retailers demonstrate a reduced focus on internal social concerns. Specifically, 25% have set quantitative goals for employee skill development, 42% for diversity and inclusion, and just 8% for health and safety issues.

Level of companies' reporting and commitment on Governance and Supply Chain[1]



(1) The European House-Ambrosetti on publicy available data by *AK PLAZA*, Asos, *Baymen, Bloomindgale's*, Boozt, Decathlon, Farfetch, *Harrods, Harvey Nichols, Holt Renfew, House of fraser, Hyundai,* Isetan, *KaDeWE, Lane Crawford, Le bon marche, Lodenfrey,* Macys, Mytheresa, Neinman Marcus, Nordstrom, *Printemps, Rinascente, Saks, Selfridges, Shinsegae, Takashimaya, Vakko,* Ynap, Zalando. In italic companies that do not have a structured sustainability reporting approach

5.

EUROPEAN BUSINESS RESPONSE

KEY MESSAGE
5.1

Large companies are improving their oversight on all of the relevant ESG topics. The improvement is correlated to the presence of a strong sustainability governance: companies with a dedicated function and sustainability-linked MBOs outperform their peers on all ESG topics.

KEY MESSAGE
5.2

The majority of the largest European companies in the fashion industry have a structured approach to sustainability reporting, but among all KPIs reported, **performance comparability and trend tracking through the years are still a long way off**.

KEY MESSAGE
5.3

The correlation between Italian firms size and presiding over ESG issues remains directly proportional, as it did in 2022. One year on, **companies in the supply chain have improved their oversight of sustainability issues**: social issues are more closely overseen than environmental ones, while supply chain monitoring is currently poorly overseen, managed only by little reporting and adoption of policies.

KEY MESSAGE
5.1

LARGE COMPANIES ARE IMPROVING THEIR OVERSIGHT ON ALL OF THE RELEVANT ESG TOPICS. THE IMPROVEMENT IS CORRELATED TO THE PRESENCE OF A STRONG SUSTAINABILITY GOVERNANCE: COMPANIES WITH A DEDICATED FUNCTION AND SUSTAINABILITY-LINKED MBOS OUTPERFORM THEIR PEERS ON ALL ESG TOPICS.

71/100 OF EUROPEAN LARGEST COMPANIES IN THE FASHION VALUE CHAIN WHO WILL BE SUBJECT TO ESG REPORTING REQUIREMENTS ARE ALREADY WORKING ON THEIR JUST TRANSITION READINESS

Starting from FY2024, all European large companies will have to comply with the new CSRD Directive. The Directive imposes several new requirements, including the need to develop structured reporting, set specific goals, and establish ESG-oriented governance. It also represents a significant increase in reporting standards; it is possible to expect that this may lead to improved performance on ESG topics.

For the second year, The European House – Ambrosetti conducted a benchmark on the 100 largest European companies by turnover in the fashion industry to measure their transition readiness to new compliance requirements and their direct contribution to the ESG transition. The panel was analyzed according to oversight (whether the companies have management tools in place) and their performance (the reporting and trend of KPIs) on the 11 ESG dimensions that are at the basis of ESG reporting requirements.

Among the selected companies, 79 are brands and 21 belong to the supply chain. The adopted methodology grants bonus points to those companies that strongly committed in critical dimensions: for example, additional points have been assigned for having decarbonization targets aligned with the science (SBTi), reporting scope 3 emissions, and establishing an ESG-linked remuneration system at management and/or executive level.

The analysis has been conducted exclusively by analyzing the balance sheets and sustainability related publicly available information on the latest three years: of 100 companies, 29 do not have a structured sustainability reporting.

Benchmark topics and areas of analysis

ENVIRONMENT	Climate change	Coverage of the topic, in terms of reporting and target setting	
	Use of raw materials		
	Waste management	Type of targets: to identify whether commitments are qualitative or quantitative	
	Biodiversity preservation		
	Water consumption	KPIs included in the reporting, and their unit of measurement	
SOCIAL	Skills development		
	Diversity and inclusion	Trend in performance, to track progress towards declared targets	
	Health and safety		
GOVERNANCE	Sustainability governance	Coverage of the topic: reporting, target setting and oversight	
	Human rights		
	Supply chain management		

IN ONE YEAR, THE MAJORITY OF COMPANIES INCREASED THE OVERSIGHT

A comparison between oversight levels between 2021 and 2022 reports shows a clear improvement in reporting levels overall. To begin with, 3 additional companies started reporting targets in 2022, shifting the total from 68 to 71 companies.

Average oversight score in 2021, not including companies that did not report, was 0.34. This rose to 0.40 in 2022, amounting to a 17% raise overall in oversight score. This increment is the result of a diffuse improvement among companies: 55 of them improved their oversight on ESG topics, while 39 remained steady (including the 29 that still don't publish sustainability reports). Only 6 companies have worsened.

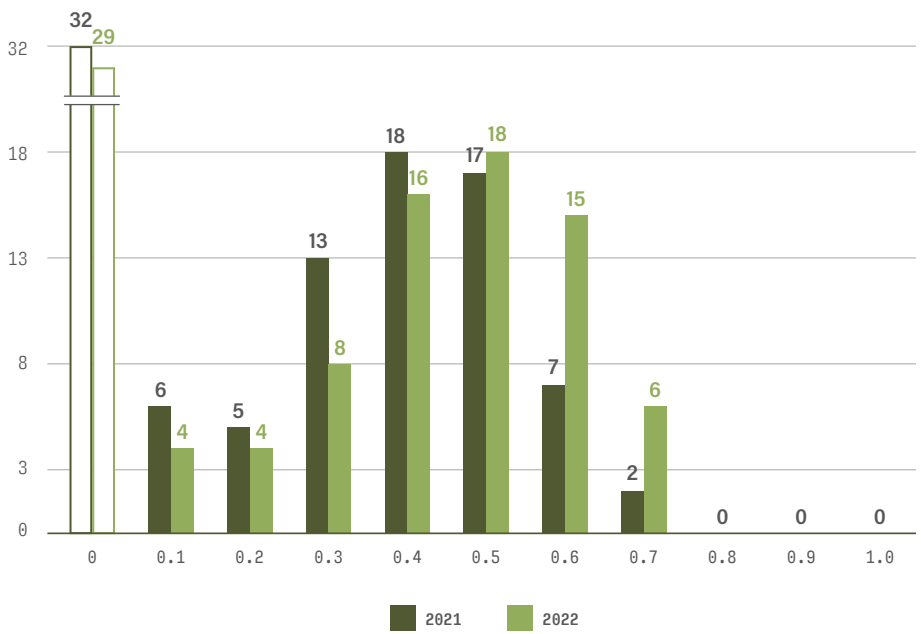
This is a clear sign that the fashion industry is starting to advance and grow its reporting targets.

↑ 55
Companies improved

↓ 6
Companies worsened

= 29
Companies remained constant

2021 vs 2022 Oversight Distribution[1]



(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

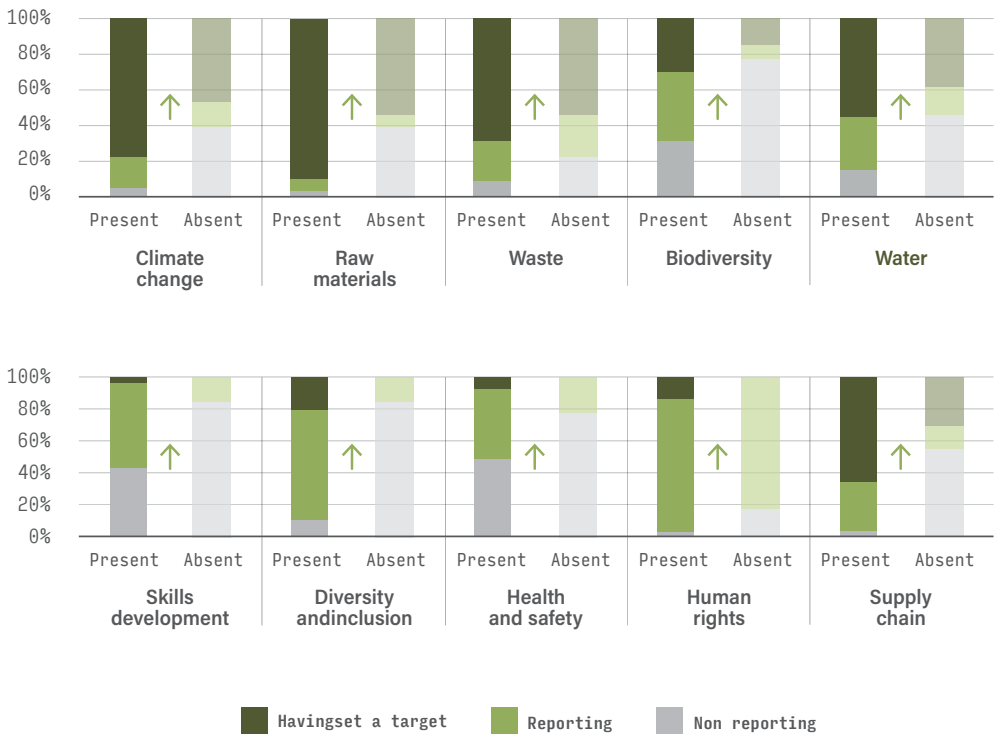
HAVING A DEDICATED SUSTAINABILITY FUNCTION SIGNIFICANTLY IMPROVES COMPANIES' OVERSIGHT ON ESG TOPICS

The presence of a sustainability dedicated function highly influences how companies report and whether they have set a target.

Overall, the percentage of companies reporting and making commitments is much higher if they have a structured function dedicated to sustainability, in particular for topics such as biodiversity, skills development, diversity and inclusion, and the monitoring of the supply chain. Having an ESG function will increase subject oversight, leading companies on average to increase by 36% their reporting or monitoring activities.

Additionally, having a component of the variable remuneration linked to the ESG performance, either in the form of short-term management by objectives (MBO) or long-term incentives (LTI) schemes, further drives disclosure efforts and performance: 100% of those companies have defined a goal on at least 3 topics. All companies with MBOs either report or have further targets on climate change and raw materials.

Comparison between the presence of a sustainability dedicated governance and the level of companies' oversight on ESG topics[1]



(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

WHILE OVERSIGHT INCREASES FOR MOST TOPICS, SOME ARE LEFT BEHIND: BIODIVERSITY IS THE LEAST EXPLORED TOPIC BY MOST COMPANIES

The level of oversight is increasing for almost all environmental topics. However, 3% of the companies still do not report performance on or have set targets on at least one environmental topic (against 5% in 2021).

Regarding climate change, there has been a 10% increase of companies that have set a target, with 4 new companies who adopted a long-term approach. 58% have made quantitative commitments under the Science Based Target initiative (SBTi), against 45% in 2021. Scope 3 reporting also went from 46% in 2021 to 50% in 2022.

Regarding the use of raw materials, several companies shifted from a qualitative approach to a definition of quantitative targets, with only one case of a long-term goal.

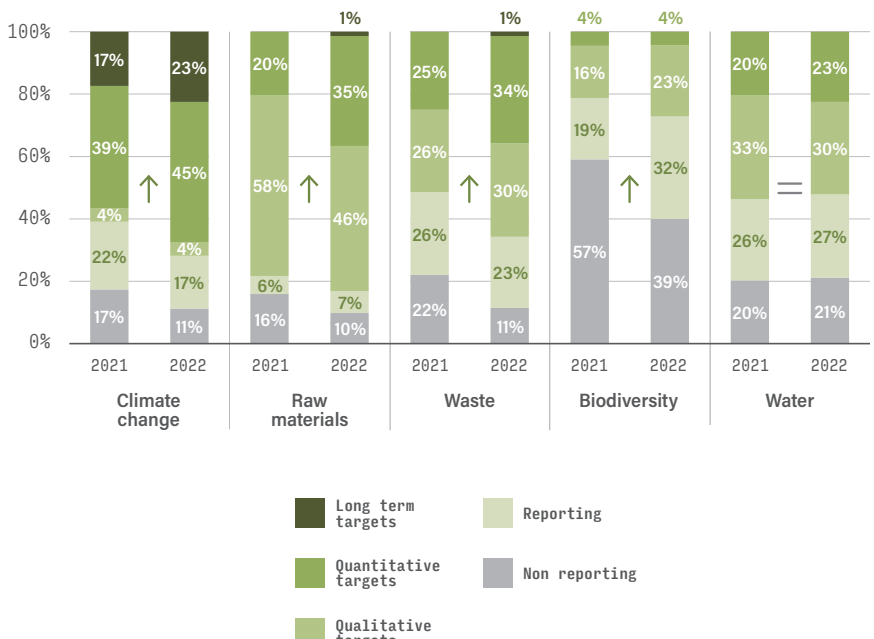
The number of companies that have set targets concerning waste management increased from 51% in 2021 to 65% in 2022.

Biodiversity remains the newest and the least explored topic: 59% of the companies now cover the topic, from 39% last year. Nevertheless, only four companies disclosed a KPI to measure their commitment.

Water is the only topic that remains stable. Only 22% of the companies have set quantitative targets, none of which with a long-term perspective.

The multiplicity of KPIs represented a difficulty in analyzing water management. Also, it is not always clear whether company data are related to the consumption at headquarters.

Level of companies' reporting and commitment on environmental topics[1]



(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 REPORTING ABOUT SOCIAL MATTERS, BUT SETTING A TARGET REMAINS A RARE PRACTICE

For all social dimensions there can be seen an increase in the number of companies disclosing information about their commitment. However, targets are mainly focused on diversity and inclusion.

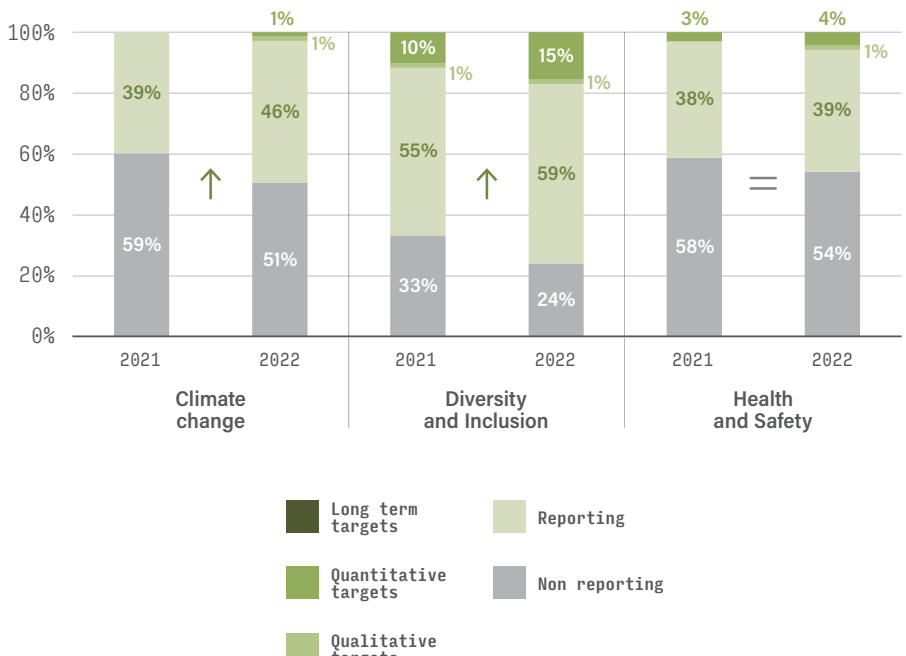
Reporting on skills development rose by 7%, and two new companies introduced quantitative goals to be achieved, one within 2030, and the second after 2030.

As mentioned, diversity and inclusion were the topics that received the most acceleration in the last year, with reporting rising by 4%, and companies reporting goals rising by 5%.

Finally, the topic that grew the least was health and safety, with companies disclosing targets rising by 4%.

Overall, social oversight efforts are quite static, as with performance; this can be led back to the legislation companies comply with, such as reporting and adhering to legislative requirements, and company culture being older and more established, leading to shallower gains year-on-year.

Level of companies' reporting and commitment on social and governance topics[1]



(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

CONCERN OVER SUPPLIERS' SUSTAINABILITY IMPACT GROWS OVERSIGHT ON SUPPLY CHAIN MANAGEMENT, BUT QUANTITATIVE DATA IS LACKING

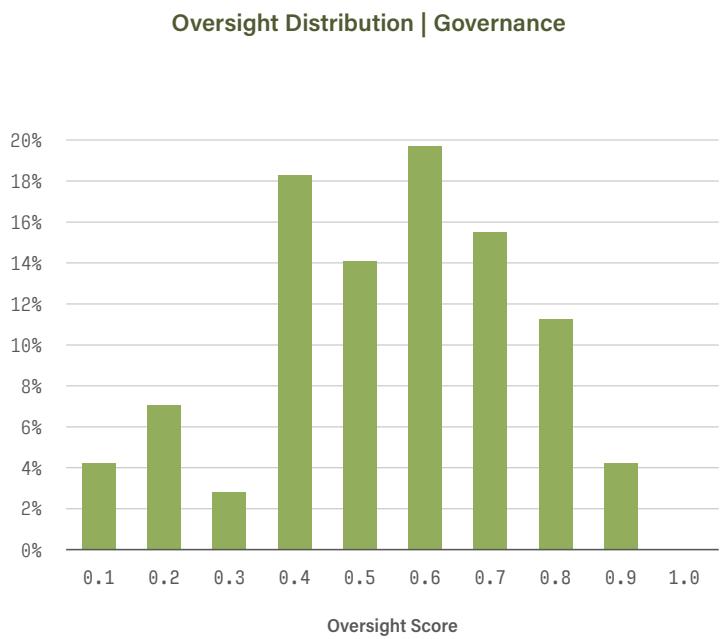
Companies' oversight on topics concerning governance has been analyzed. These are: sustainability governance, human rights, minimum wage, ESG due diligence policies, and supply chain management.

The oversight distribution of supply chain policies was calculated. As shown, distribution scores are quite high, showing how many companies adopt supply chain governance practices within their companies.

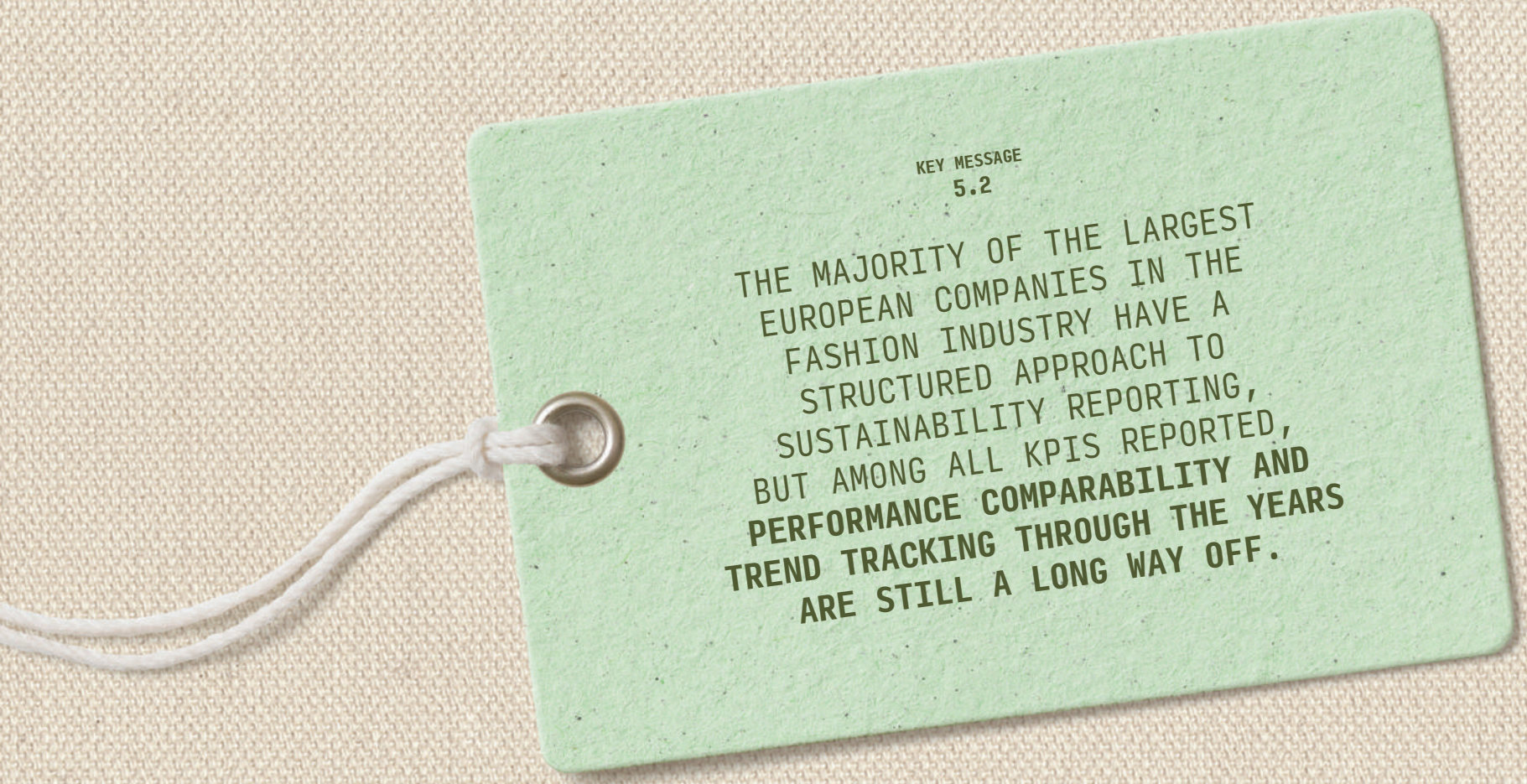
94% of companies reported on human rights oversight, but only 11% had any kind of quantitative or qualitative goal to accompany their approach.

69% of companies reported on minimum wage targets, and 41% of them set a living wage as their target. However, only 6% of companies disclosed any kind of quantitative data on supply chain wages, showing a clear trend in reporting targets, but not backing them up with any quantitative data, as only 4% of companies fully disclosed wage targets and expenditures within their report.

65% of companies had some disclosure regarding their supply chain, with 21% having an ESG due diligence policy in place, using third party suppliers to audit their supply chain.



(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



KEY MESSAGE
5.2

THE MAJORITY OF THE LARGEST EUROPEAN COMPANIES IN THE FASHION INDUSTRY HAVE A STRUCTURED APPROACH TO SUSTAINABILITY REPORTING, BUT AMONG ALL KPIS REPORTED, **PERFORMANCE COMPARABILITY AND TREND TRACKING THROUGH THE YEARS ARE STILL A LONG WAY OFF.**

OVERSIGHT ON ESG ISSUES SHOWS LITTLE CORRELATION WITH ACCELERATION IN PERFORMANCE, AS DATA COMPARABILITY IS UNCERTAIN

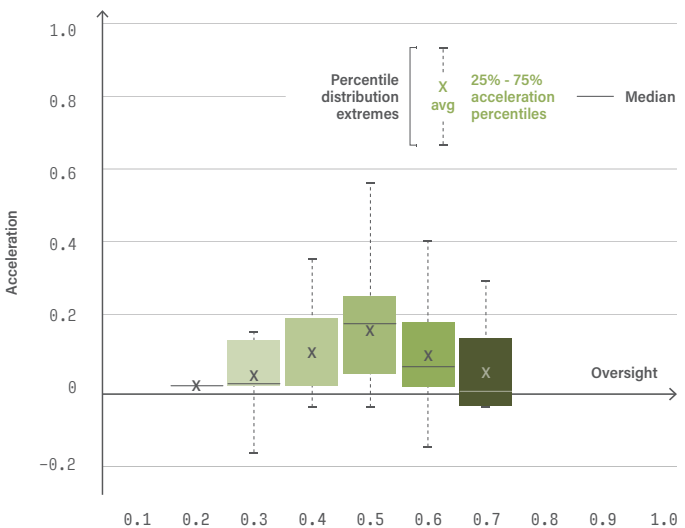
To understand the impact oversight had on overall company performance, the distribution of the acceleration different companies had with respect to oversight levels was calculated. Acceleration shows the speed with which companies have changed in the past two years, while oversight shows how much companies are overseeing ESG issues.

The distribution measures:

- Oversight (x axis): with a score between 0 and 1, it measures the implementation of management tools on each ESG topic; individual scores have been given to the company approach to the topic depending on sophistication, ranging from reporting to long term quantitative targets.
- Acceleration (y axis): with a score between -1 and 1, it measures the effectiveness of management tools in measuring improvement on each ESG topic; the score is assigned depending on whether the reported performance on ESG topics has improved or worsened in the past year.

Companies that do not have a structured reporting system are missing from the matrix. These account for 29% of total companies, reduced by 7% compared to 2021.
The presence of multiple non-homogenous KPIs, evolving reporting scopes, and uncertainty of their significance make comparing performance between companies more challenging.
None of the companies have been able to score at the top in the oversight dimension, highlighting how working sustainably indeed requires a multidimensional approach. It is very difficult for companies, even for those who report regularly, to achieve an improvement in overall performance, demonstrating how the presence of oversight in companies is not enough to encourage change. More intensive management is needed, as for cumulative performance gains then every reported area needs to see improvement.

Performance acceleration at given oversight levels[1]



29 no show (haven't disclosed any sustainability information)

(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

AS ENVIRONMENTAL PERFORMANCE IS OFTEN PROPORTIONAL TO COMPANIES' PRODUCTION, ITS IMPROVEMENT IS NOT PROPORTIONAL TO THE OVERSIGHT

Among companies that address sustainability, the overall environmental dimension is the most reported, and it is characterized by a high variance in terms of performance acceleration. This is also due to a lack of KPI alignment towards European environmental goals, which hinders effective performance analysis.

Because of this, while it is the most overseen dimension, performance acceleration is the lowest on average.

Though a general improvement trend can be seen when looking at the figure, good oversight does not necessarily correlate to good performance, as many companies with strong reported policies towards reducing their climatic impact had negative performances.

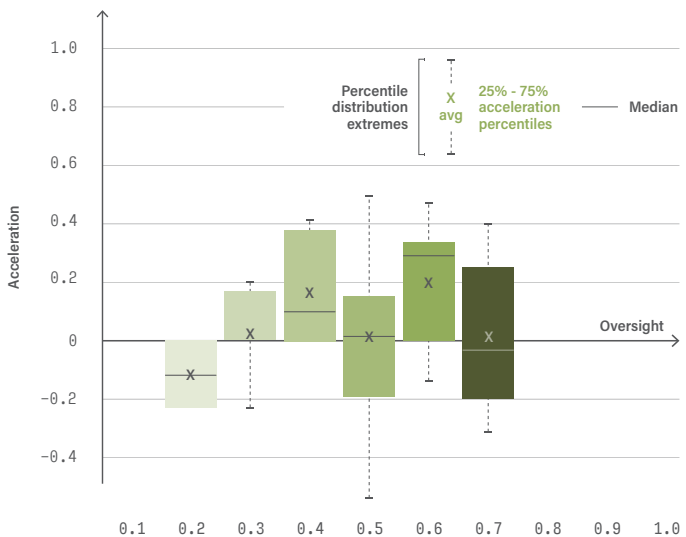
While oversight scores may seem low, companies that had average reporting practices fall between 0.3 and 0.5, due to a differentiation in points awarded depending on the kind and duration of targets set by companies, so companies who carried out strong reporting with a score higher than 0.6 had to monitor every theme exceptionally well.

Water, raw materials and waste management are hot topics, often assessed by companies; however, comparing the results across the panel can be difficult due to the use of different KPIs and the different scopes of reporting: for example, accounting for the water consumption at the production site or exclusively at headquarters, or accounting for the use of recycled material within the product or for packaging.

As in 2021, biodiversity remains overlooked, addressed only by 42 companies, and only three of them reported the use of a KPI to measure their performance.

Overall, the acceleration shown can be considered to cover only the companies' direct impacts, as reporting on supplier impact is lacking.

Environment | Performance acceleration at given oversight levels



(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. Note: Scope 3 emissions were emitted from performance calculations

SOCIAL MATTER PERFORMANCE IS DIAMETRICALLY OPPOSITE: PERFORMANCE IS STRONG BUT MEASURABLE TARGETS ARE RARE

Performance was good when analyzing the social pillar of companies' ESG disclosure. The benchmark considers oversight in disclosure with regard to health and safety, diversity and inclusion, and skills development.

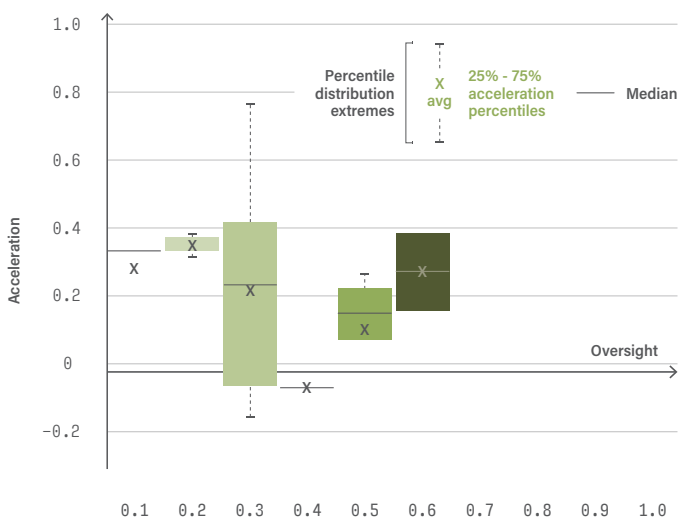
Though average oversight score is lower, there is a sharper performance trend when it comes to social reporting with regard to environment. Average acceleration is higher at low oversight scores than environmental acceleration.

Normative pressures may inflate the performance of these companies. This could be the reason behind the limited oversight scores, as no long-term targets are necessary when legislation such as the Italian DNF imposes reporting performance.

Many companies improve substantially in at least one of the three parameters analyzed. Data analysis was also much easier, as KPIs are more uniform across the sample, making performance calculations more reliable and comparable. 90% of companies register a positive trend in performance in at least one of the areas surveyed, with 3% of companies improving in all of them.

Out of all companies reporting, 25% had at least 50% of their management composed of women in 2022. There was a positive trend in 2022, as 27% of companies registered an increase within their management diversity, though 8% of companies did lower their management diversity. These calculations do not consider those companies that had more than 50% of their management already composed of women.

Social | Performance acceleration at given oversight levels



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THE SOONER YOU START MEASURING, THE FASTER YOU'LL SEE RESULTS: THE CASE OF GHG EMISSIONS

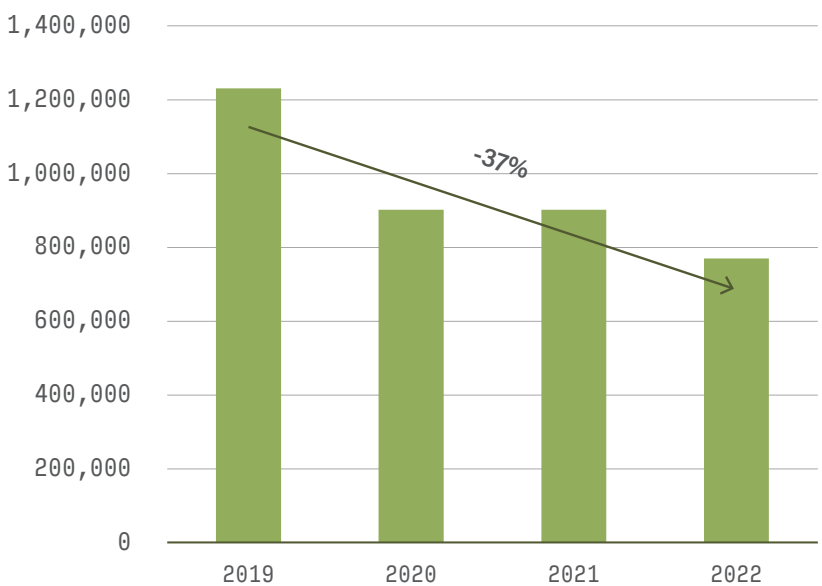
Of the 100 companies of the panel, only 23 companies continuously publicly reported their Scope 1 and 2 Emissions in the last four years. The graph shows the evolution of their combined emissions over the timeframe.

The importance of climate change and the effect caused by GHG emissions has been one of the first topics addressed by companies, and this translated in a reduction of 37% of emissions in three years.

In this case, the extraordinary nature of 2020 played a role as accelerator to the Net Zero goal, with a decrement of 27% compared to the previous year. While in 2021 emissions remained steady, in 2022 there occurred another reduction of 15%.

However, this result should be read by remarking that Scope 1 and 2 constitute only 6% of the total emissions. The majority are represented by Scope 3 and are the most challenging to reduce.

Cumulated Scope 1 and 2 emissions of 23 companies (tonnes CO_2eq)



(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. (2) S&P Global, Fast on fashion, slow on sustainability: Clothing companies and the circular economy (2023); (3) The European House Ambrosetti, Elaboration on Carbon Disclousure Project Data granted by Carbonsink (2023)

KEY MESSAGE
5.3

THE CORRELATION BETWEEN ITALIAN FIRMS SIZE AND PRESIDING OVER ESG ISSUES REMAINS DIRECTLY PROPORTIONAL, AS IT DID IN 2022. ONE YEAR ON, **COMPANIES IN THE SUPPLY CHAIN HAVE IMPROVED THEIR OVERSIGHT OF SUSTAINABILITY ISSUES:** SOCIAL ISSUES ARE MORE CLOSELY OVERSEEN THAN ENVIRONMENTAL ONES, WHILE SUPPLY CHAIN MONITORING IS CURRENTLY POORLY OVERSEEN, MANAGED ONLY BY LITTLE REPORTING AND ADOPTION OF POLICIES.

PERIMETER SURVEYED AND DISCLAIMER

In measuring the readiness of the Italian fashion supply chain for the second year in a row, The European House - Ambrosetti administered an ESG assessment to a sample of companies. This year 374 responses have been collected, about twice as many as in 2022[1].

The sample under consideration, composed mainly of textile and garment companies, makes it clear that the Italian supply chain is small: 74% are under €30 million in turnover.

The assessment consisted of a maximum of 54 multiple-choice questions on the following topics:

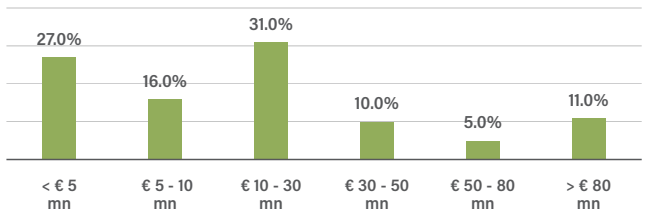
ENVIRONMENT
- Climate change
- Use of raw materials
- Waste management
- Biodiversity preservation
- Water consumption

SOCIAL
- Skills development
- Diversity and inclusion
- Health and safety

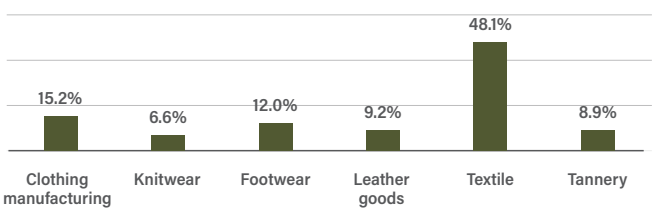
GOVERNANCE
- Sustainability governance
- Human rights
- Supply chain management

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

Sample of companies, by turnover[1]



Sample of companies, by supply chain segment[2]



(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

SUPPLY CHAIN COMPANY SIZE AND SUSTAINABILITY REMAIN DIRECTLY PROPORTIONAL, BUT THE OVERSIGHT OF ESG ISSUES IMPROVED IN 2023

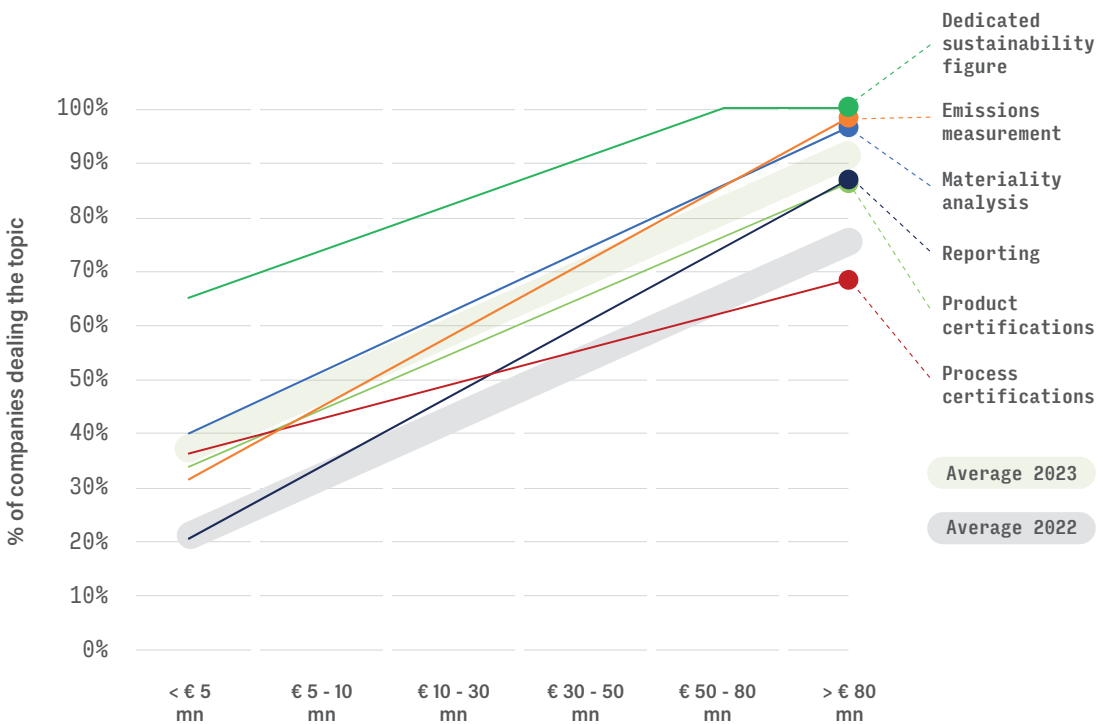
As highlighted in the 2022 study, the direct correlation between firm size and positive sustainability outcomes can be summarized graphically as shown in the graph. It is readily apparent that as the size of a firm increases, the adoption of sustainability management tools follows suit in a proportional manner.

In the 2023 analysis, however, when compared to the 2022, it can be observed a maturation among companies in addressing ESG concerns. The average trendline exhibits an improvement by almost 16%.

Certain issues underscore the influence of firm size even more conspicuously. For instance, all companies with a turnover exceeding €50 million seem to have a dedicated sustainability figure, likely in response to the regulatory obligations they must fulfill. Conversely, the weakest point appears to be in process certification matters.

The issues that seem to have increased the most in terms of oversight are Dedicated sustainability (+33%) and Reporting (+26%).

The recurring pattern of results



(1) The European House – Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain

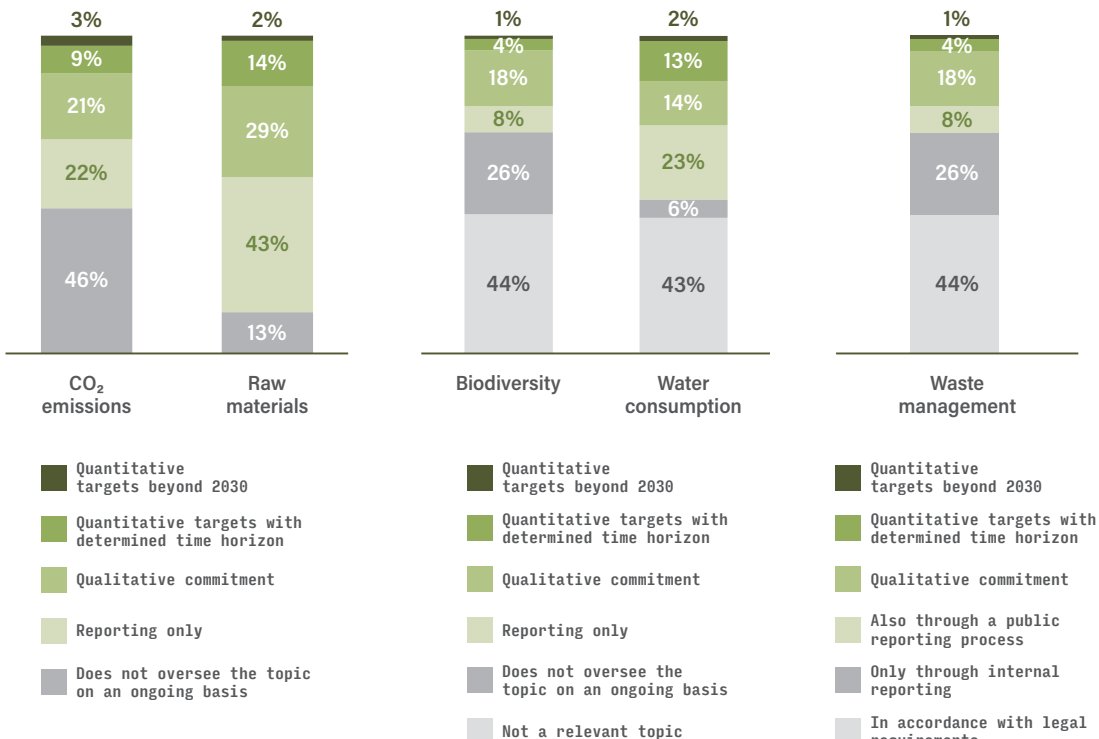
ON AVERAGE, MORE THAN HALF OF COMPANIES DO NOT COMMIT ON ENVIRONMENTAL ISSUES, WITH THE EXCEPTION OF THE RAW MATERIALS

More than 90% of companies has not set quantitative targets for CO_2 emissions, Biodiversity, Water consumption, and Waste management.

In particular, for Biodiversity and Water consumption, it's worth noting that 43-44% of these issues are not considered significant concerns, as business activities seem not to harm the soil or involve substantial water usage.

Among environmental topics, Raw materials management is the most addressed, with 16% of companies setting quantitative goals and 29% focusing on qualitative objectives.

Level of companies' reporting and commitment on environmental topics



(1) The European House – Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain

COMPANIES COVER SOCIAL ISSUES BETTER THAN ENVIRONMENTAL ONES, WITH SUSTAINABILITY SEEMING TO GAIN THE ATTENTION OF 78% OF BODS

Social aspects seem to be more closely monitored by supply chain companies than environmental ones.

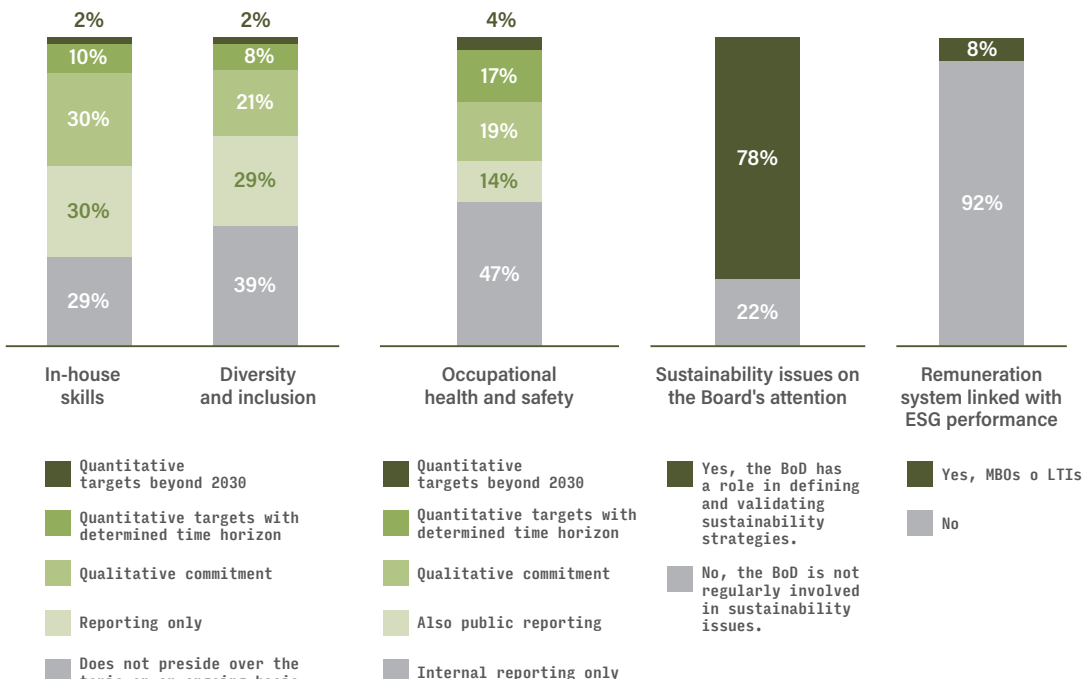
However, only about 10-12% of companies has set quantitative goals on the topics of in-house skills and diversity and inclusion.

The issue of occupational health and safety is a slight exception, as it is highly regulated in Italy, and companies must monitor relevant data, with 21% having defined quantitative targets.

Regarding the engagement of Boards of Directors (BoD), a significant 78% of companies claims that sustainability issues are on the radar of their BoD.

Despite the involvement of the highest governing body, only 8% state that company remuneration systems are linked to ESG performance.

Level of companies' reporting and commitment on governance topics



(1) The European House – Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain

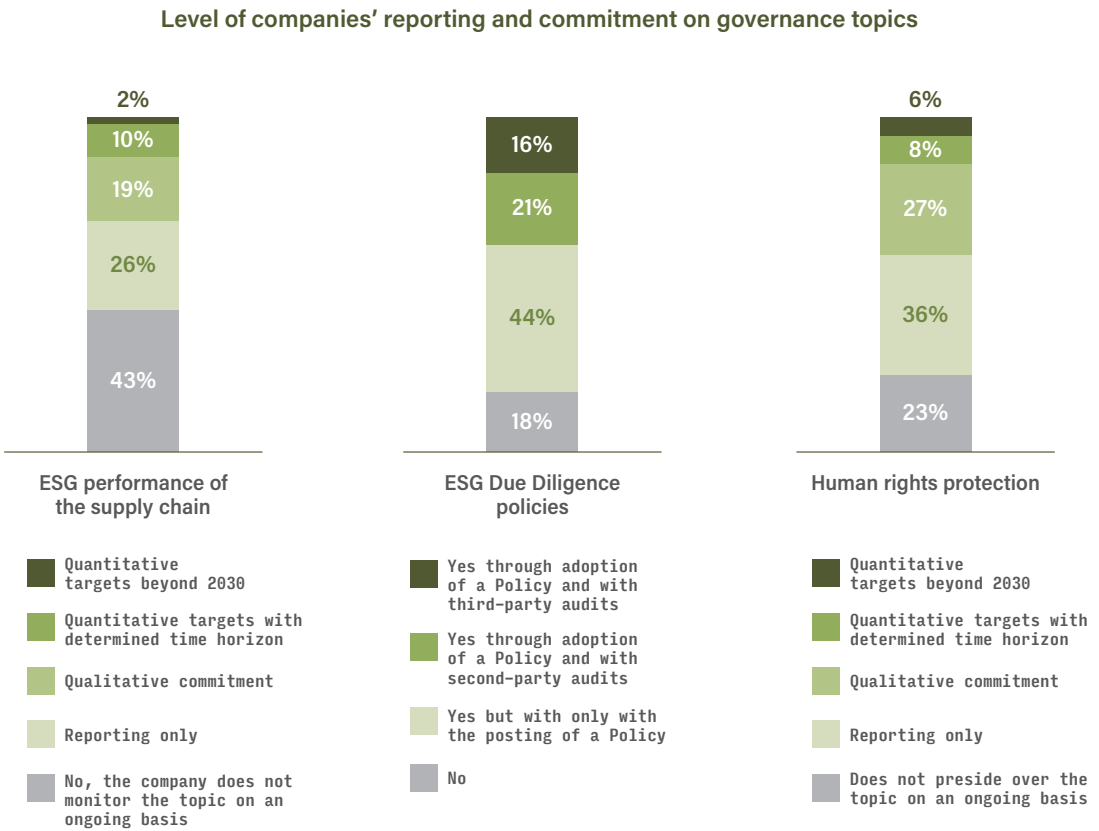
COMPANIES DON'T APPEAR TO MONITOR ESG PERFORMANCE IN THEIR SUPPLY CHAIN, AND IN PARTICULAR DO NOT HAVE TARGETS ON HUMAN RIGHTS

Supply chain companies appear not to consistently monitor the ESG (Environmental, Social, and Governance) performance in their supply chain. Specifically, 43% state that they do not continuously monitor this topic, and only 12% have defined quantitative targets.

It's essential to highlight that since supply chain companies are themselves part of upstream processes, their supply chain is much shorter.

The results show a relatively better performance for human rights protection topic, where the percentage of non-monitoring drops to 23%.

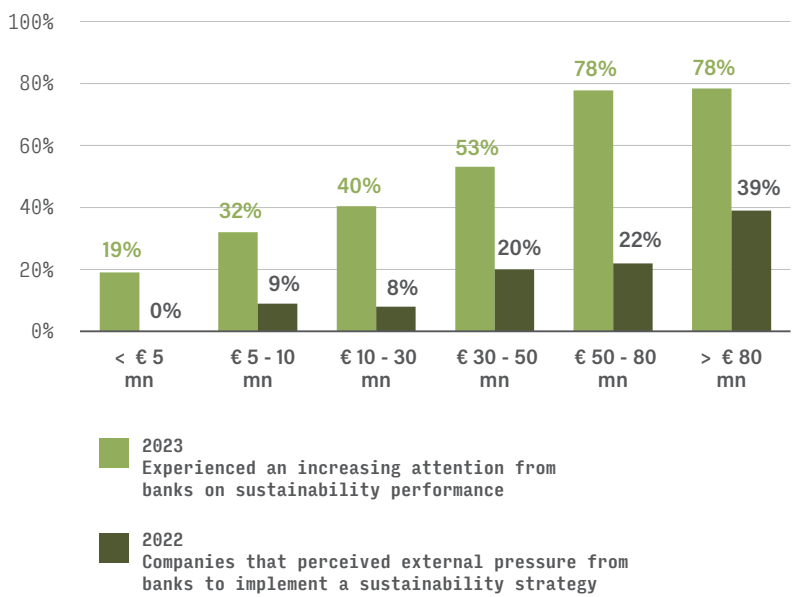
Although the commitment isn't backed up by significant numbers, 81% of companies have a Due Diligence Policy, with 44% having only a policy, 21% conducting second-party audits, and 16% also conducting third-party audits. This means that companies are actively engaged in audit controls but they lack the formalization of objectives and processes for monitoring supplier ESG performance.



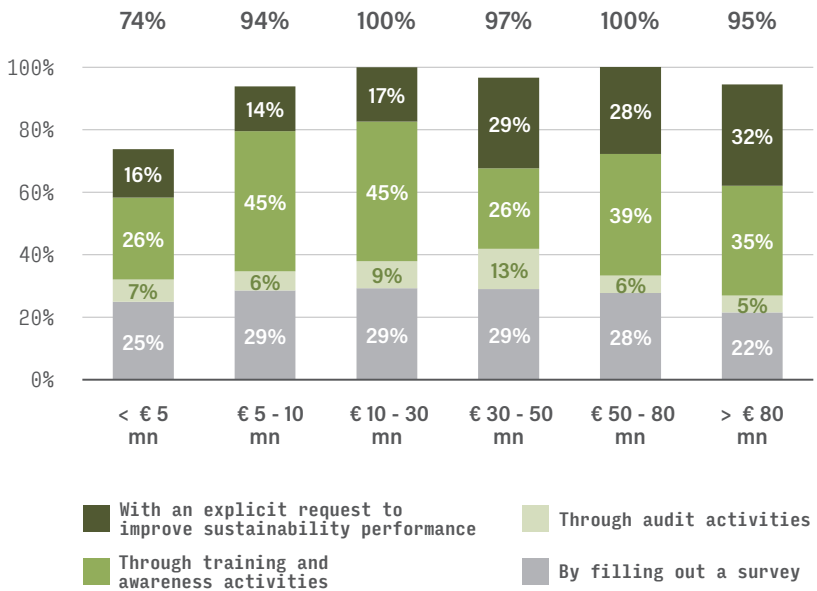
(1) The European House – Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain

FINANCIAL AND CUSTOMER PRESSURES TOWARDS THE TRANSITION IN SUPPLY CHAIN COMPANIES IS RISING

Companies that experienced an increasing attention from banks on sustainability performance



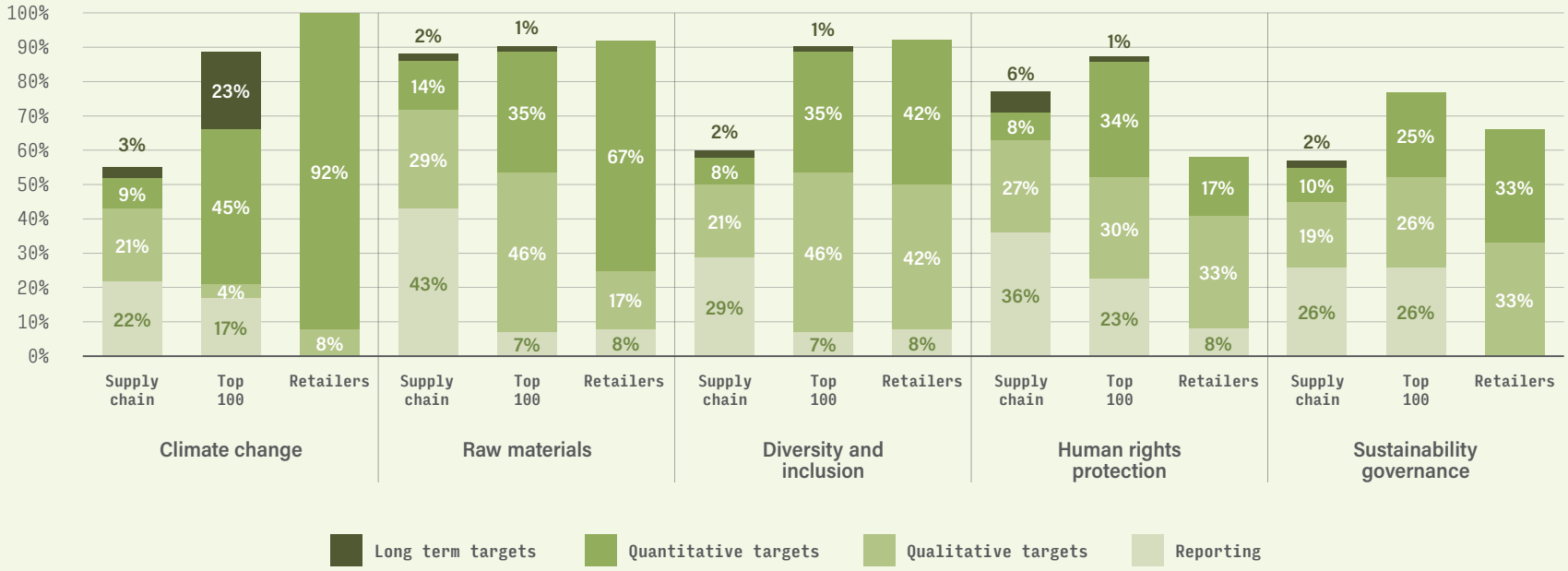
Companies that experienced an increasing attention from clients on sustainability performance



(1) The European House - Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain

RETAILERS RAISE THE BAR ON ENVIRONMENTAL TOPICS SUCH AS EMISSIONS AND RAW MATERIALS, HUMAN RIGHTS AND GOVERNANCE LAG BEHIND

Supply chain, largest EU companies and retailers: level of reporting and commitment on main ESG topics[1]

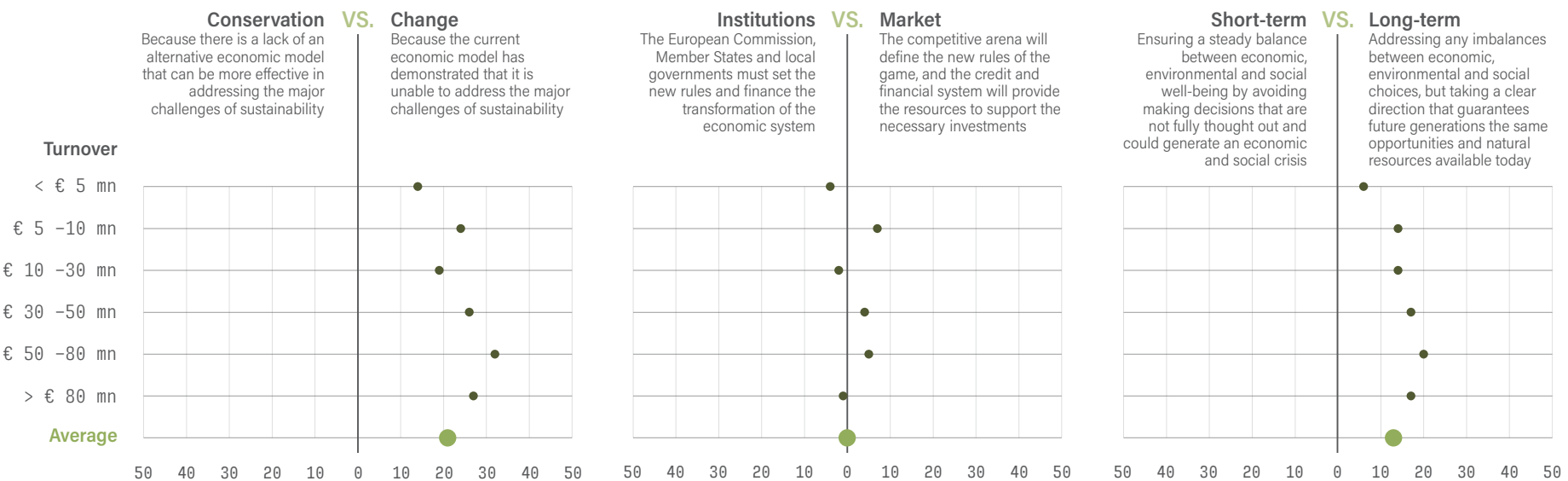


(1) The European House – Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain, on all latest balance sheets and sustainability related publicly available information from European fashion and luxury value chain companies that will be subject to CSRD obligations and from largest global retailers

TURNOVER DOESN'T AFFECT STRATEGIC ORIENTATION: SUPPLY CHAIN SEEKS CHANGE, MARKET-INSTITUTION BALANCE, AND LONG-TERM PERSPECTIVE

Within the survey, companies were asked to indicate their strategic orientation on a scale of 1 to 100 related to 3 forks with the following question: *"In order to complete the European sustainable transition, which of the following approaches do you consider the most effective?".*

Score 1 corresponds to the maximum toward the left turn (Conservation, Institutions, and Short-term) while 100 corresponds to the maximum toward the right turn (Change, Market, Long-term).



(1) The European House – Ambrosetti elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain

EU AND BUSINESSES' STRATEGIC PERSPECTIVE ON FASHION'S JUST TRANSITION SEEMS NOT TO BE FULLY ALIGNED, ESPECIALLY ON ECONOMIC MATTERS

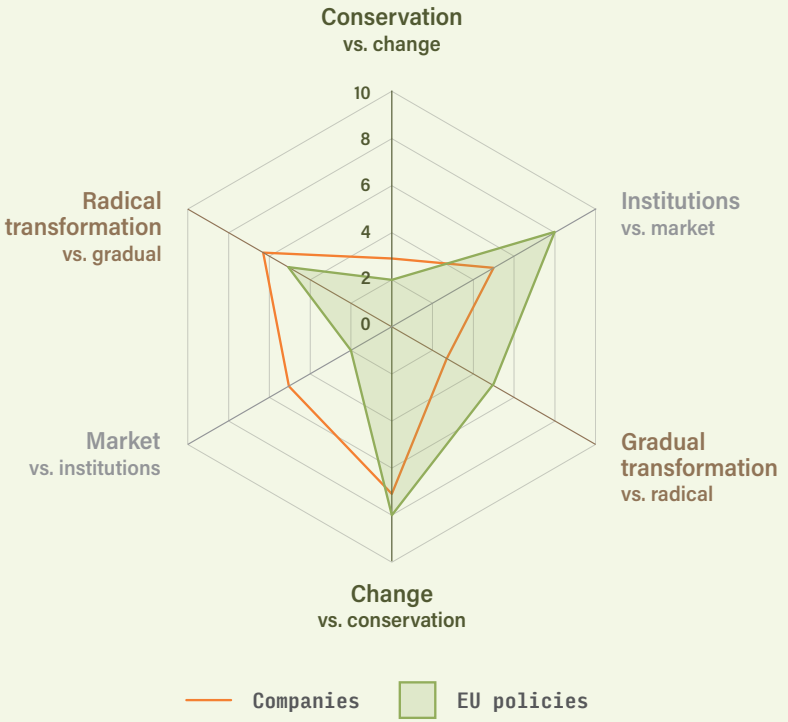
The strategic orientations of businesses have been compared with those of the European Union, with the primary objective of assessing the degree of alignment in their chosen approaches aimed at facilitating the ESG transition.

In this context, an analysis was conducted on 15 pivotal policies and regulatory mechanisms outlined within the European Union Strategy for Sustainable and Circular Textiles.

Results indicate that while both the European Union policies and companies exhibit an inclination toward a moderately radical path of change, the European Union promotes a top-down approach whereby representative bodies are in charge of defining rules that bind the community to adopt more sustainable behaviors. In contrast, companies tend to favor a market-based approach, where responsibility for driving change is entrusted to market dynamics.

This finding seems to suggest that, although a good degree of alignment is observed, in order for companies to promptly accelerate the Just Transition by unleashing their potential, they will need to be supported at European level with policy instruments tailored to their peculiarities and leverage market dynamics, by taking as an example the positive results the Induction Reduction Act is achieving in the USA.

Comparing companies and European Union policies' approaches to the ESG transition[1]



(1) Elaboration The European House - Ambrosetti from the analysis of 14 key actions: Corporate Sustainability Reporting Directive; Corporate Sustainability Due Diligence Directive; Ecodesign for Sustainable Products Regulation; Green Claims Initiative; REACH Regulation; EU Forced Labour; Initiative addressing microplastics; Best Available Techniques; Export of textile waste; Waste Framework Directive; Product Environmental Footprint Category Rules; Textile Labelling Regulation, EU Ecolabel, Taxonomy for sustainable finance; Carbon Border Adjustment Mechanism

6.

UPDATES ON 2022 PROPOSALS FOR A GLOBAL JUST FASHION TRANSITION

PROPOSAL		TARGETS						IMPLEMENTATION		
		Governments & Institutions	Upstream value chain	Downstream value chain	Financial sector	NGO's & Philantropy	Arts, Media & influencers	NO	Partial	YES
I.	Anticipating the market transition		√	√					•	
II.	Building multi-stakeholder task-forces led by Governments	√	√	√	√			•		
III.	Catalyzing change through alliances		√	√		√			•	
IV.	Measuring policy impact through minimum data for all		√	√				•		
V.	Promoting a positive cultural shift						√	•		
VI.	Creating a sustainability vanguard led by IT & FR luxury value chains	√	√	√					•	
VII.	Making sustainable business choices more profitable	√						NEW		
VIII.	Promoting an integrated approach between recycling and reuse	√	√	√				NEW		

I. ANTICIPATING MARKET TRANSITION

WHY

Orienting and focusing the action of companies towards the (early) adoption of the voluntary and mandatory instruments that the EU is developing as a global leader on sustainability, with the aim of providing feedback and recommendations for improvement, too.

HOW

- Continuously updating companies on the evolution of European policies and those of the main global institutions active on the subject.
- Stimulating and facilitating the adoption of Community instruments through guidelines and toolkits already under test in order to verify their effectiveness and, on the other hand, providing feedback to refine them through a process of continuous improvement.

WHO

Companies worldwide and representatives of the whole value chain.

GOOD NEWS

-46.5% cut of environmental impacts and **+23.3% surge of technological development** obtained by the EU fashion industry in 4 years[1].

+6% YoY increase of new EU fashion largest companies setting **new climate targets** in 2022.

-37% cut of GHG emissions by 23 of the EU largest companies in 3 years. Perceived increase in **pressure from banks** reported by **40% of companies** in the Italian supply chain.

(1) The European House – Ambrosetti Elaboration on EEA, EPO and Statista Data (2023); (2) Not exhaustive

II. BUILDING MULTI-STAKEHOLDER TASKFORCES LED BY GOVERNMENTS

WHY

By acting as transition enablers, consult in a flexible manner with key industry players, NGOs, industry experts, finance and academia in order to define roadmaps to support ESG transformation and working towards targets to address national specificities.

HOW

- 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.

WHO

Governments, upstream and downstream **representatives, financial sector.**

GOOD NEWS

Signing of a **Danish sectoral agreement** by the Ministry of Environment, 10 companies and 3 NGOs to reduce the national fashion industry's environmental footprint.

Funding of the British Fashion Council **Textile 2030 Strategy** by the UK Government with over £80 million.

III. CATALYSING CHANGE THROUGH ALLIANCES

WHY

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

HOW

- 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.

WHO

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

GOOD NEWS

Launch of Fashion Pact initiatives to act jointly with regards to sustainability challenges, such as the subscription of a Collective Virtual Power Purchasing Agreement or a scientific approach to assess members' impacts on biodiversity.

Himalaya Regenerative Fashion Living Lab results presentation at COP27.

Promotion of 15 circularity project by **RETEX Green.**

Events organized in **Copenhagen** and **Boston** by **Global Fashion Agenda.**

IV. MEASURING POLICY IMPACT THROUGH MINIMUM DATA FOR ALL

WHY

To evaluate the effectiveness of policies and actions and create an up-to-date database based on a small number of significant KPIs coherent with the upcoming European and global compliance requirements (ESRS - European Sustainability Reporting Standards and IFRS - International Financial Reporting Standards).

HOW

- Creating an observatory, also by engaging trade associations and already, to collect, consolidate and summaries data the state of the art of the sector.
- Identifying indicators, agreeing on calculation methodologies and starting data collection: waste, minimum wages, water consumption, chemicals, GHG emissions, recyclable sources.

WHO

Companies worldwide and the whole **value** chain.

GOOD NEWS

Standardization of sustainability disclosure standards through an EU CSRD and its **European Sustainability Reporting Standards** Delegated Regulation.

China's adoption of a **Plan for the Reform of the Legal Disclosure System of Environmental Information.**

Development of an **EU proposal for regulating ESG rating** activities, with regard to transparency and integrity. **Decarbonization guidelines** published by Sustainable Apparel Coalition.

"Solving the used clothing crisis: Global, European, and Chilean perspectives" study by UNECE and the United Nations Economic Commission for Latin America and the Caribbean (UNECLAC) to be published by the end of 2023.

V. PROMOTING A POSITIVE CULTURAL SHIFT

WHY

Leveraging the communication potential of positive messages and experiences (i.e., events, concerts, etc.) 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 taken.

HOW

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

WHO

Brands, musicians, influencers.

GOOD NEWS

Launch of the Sustainability Pledge initiative, as a result of the "Enhancing Transparency and Traceability of Sustainable Value Chains in Garment and Footwear" prompted jointly by UNECE, UN/CEFACT and the International Trade Centre with funding from the European Union.

Realization of a series by the **BBC** and **the Global Fashion Agenda** on sustainable fashion and its positive impacts on life.

Launch of the Blue-Sky Podcast by the **Climate Positive Initiative** led by **Harvard** Advanced Leadership Initiative Fellow Bill Burke.

"Overheated event" organized by **Billie Eilish** to promote sustainable fashion during her 2023 world tour.

VI. CREATING A SUSTAINABILITY VANGUARD LED BY IT & FR LUXURY VALUE CHAINS

WHY

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

HOW

Re-investing 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.

WHO

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

GOOD NEWS

Confidential interlocutions **to engage major Italian and French luxury companies** to develop a systems approach to industry transition, with resistance-oriented feedback.

2023 PROPOSALS FOR A GLOBAL JUST FASHION TRANSITION

	WHAT	WHY	HOW
	**VII. MAKING SUSTAINABLE BUSINESS CHOICES MORE PROFITABLE**	To unleash and harness EU companies' full potential for change by fostering the development, deployment and large-scale adoption of green technologies throughout the fashion value chain, drawing inspiration from the positive experience of the US Inflation Reduction Act (IRA).	Leveraging public economy devices to support private investment, such as the introduction of incentive schemes, public purchasing bonus points or tax relief and defiscalisation tools.
	**VIII. PROMOTING AN INTEGRATED APPROACH BETWEEN RECYCLING AND REUSE**	To create virtuous synergies between recycling and re-use operators to effectively address the challenge of overproduction, by promoting appropriate enhancement of the physical and intangible durability of eco-designed textiles, while reducing multi-materials garments.	▪ Mapping global textile end-of-life flows capitalizing on the results of the forthcoming UNECE project. ▪ Revising textile waste classification system to prevent disposal of end-of-life garments through second-hand channels in developing countries. ▪ Exploring the potential of long-term leasing for valuable garments.

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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 141 Top Employers 2023 in Italy.

The European House - Ambrosetti provides:

- strategic and managerial consulting services;
- creation of strategic scenarios and policy-making and advocacy activities (over 250 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 550 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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