

2<sup>nd</sup> EDITION

# VENICE SUSTAINABLE FASHION FORUM

OCTOBER 26 and 27, 2023

VENICE, FONDAZIONE GIORGIO CINI



# JUST FASHION TRANSITION 2023



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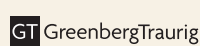
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## THE VENICE SUSTAINABLE FASHION FORUM 2023

The Venice Sustainable Fashion Forum is a unique and extraordinary initiative conceived, designed, and implemented through the joint effort of three partners: **Sistema Moda Italia**, **The European House-Ambrosetti**, and **Confindustria Veneto Est**.

The Forum represents the annual flagship event on Sustainability in the Fashion Industry. This year, for the **2<sup>nd</sup> edition**, 21 partners supported the initiative by sharing its values and goals and acknowledging the need to start a serious debate on Sustainability in the Fashion Industry that leads to a true and just transition.

The progress, challenges and opportunities related to the sustainable transformation of the industry have been included in the **strategic study** Just Fashion Transition, to be presented during the event in order to build a common basis for dialogue and development of shared solutions.

## THE EUROPEAN HOUSE – AMBROSETTI

**The European House - Ambrosetti is a leading Italian management consulting firm with over 300 professionals.** Established in 1965, it is headquartered in Milan and has a network of foreign offices in Europe and around the world. Additionally, The European House - Ambrosetti is supported by a series of strategic alliances and an external network of internationally-renowned advisors.

Since 2013, The European House - Ambrosetti has been named – in the category Best Private Think Tanks – **the n° 1 think tank in Italy**, the n° 4 in the European Union and among the most respected independents in the world out of 11,175 on a global level (source: “Global Go To Think Tanks Report” of the University of Pennsylvania).

Moreover, for the third consecutive year, in 2023 The European House - Ambrosetti was recognized by the Top Employer Institute as one of the 141 Top Employers in Italy.



# JUST FASHION TRANSITION 2023: EXECUTIVE SUMMARY

## GOALS OF THE STUDY AND SOURCES

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

Contents of the study benefit from several sources and analyses

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

 **30** retailers analyzed

**374** supply chain companies assessed by a sustainability questionnaire

 **21** industry leaders interviewed

**100** top European companies assessed on their sustainability oversight and performances

 **>150** articles, reports and database consulted

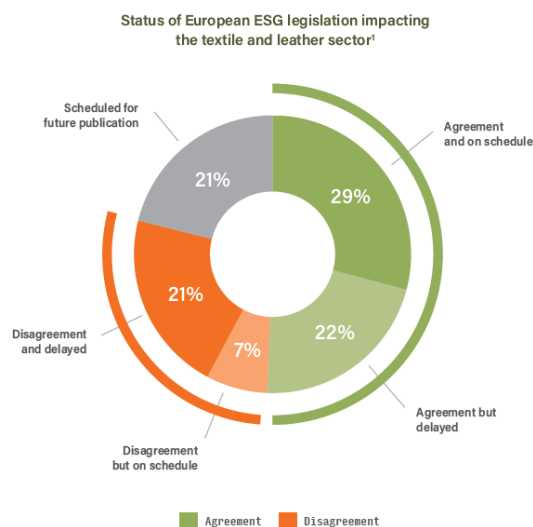
**32** companies rated by S&P CSA and Sustainalytics cross-referenced

 **32** policy measures/ frameworks analyzed

## KEY FINDINGS OF THE STRATEGIC STUDY

### 5 tangles to unravel in the Just Fashion Transition scenario

1. While **regulatory pressure** on sustainability is rising globally, the European Union and the United States offer divergent solutions to reach their climate goals and prepare the field for a new competitive challenge. However, the intense EU regulatory drive on fashion industry elicits mixed reactions from Member States, who still disagree on almost 30% of the Strategy for sustainable and circular textiles legislation.



#### Key supporting evidence

- With the **Green Deal Industrial Plan** and the **Inflation Reduction Act**, EU and US adopt divergent recipes to reach climate goals - **regulations vs incentives** - thus paving the way for a new competitive challenge<sup>1</sup>.
- 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, which encountered several obstacles during its unravelling. Out of **14 of the key legislative actions** presented, it seems that **agreement** on legislations exists in **51%** of the cases under consideration. Meanwhile, another **28%** of these cases encounters **disagreement**, either due to differing stances between the three European institutions or significant influence from lobbying groups, resulting in **delays in 3/4 of these instances**<sup>2</sup>.
- The proposal for a new **Ecodesign for Sustainable Products Regulation** represents the cornerstone of the EU Strategy<sup>3</sup>, as it establishes a framework to define eco-design requirements for specific product categories, with the aim of significantly enhancing circularity, energy efficiency, and overall environmental sustainability. However, preliminary impact analysis shows no particularly encouraging projected implications, with a cut of **-3.51 million tons CO<sub>2</sub>eq through eco-design of cotton t-shirts**, equal to only 0.3% of EU annual carbon footprint<sup>4</sup>.
- The EU Strategy also includes a regulatory framework tackling the Waste Shipment impacts in third countries. Indeed, the **textile industry** stands out as the sector with **the highest**

<sup>1</sup> U.S. Department of Labour, 2022, European Commission, 2023 and Credit Suisse, Goldman Sachs and the Brookings Institution, 2023.

<sup>2</sup> 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 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

<sup>3</sup> European Union, Ecodesign for Sustainable Products Regulation (ESPR)

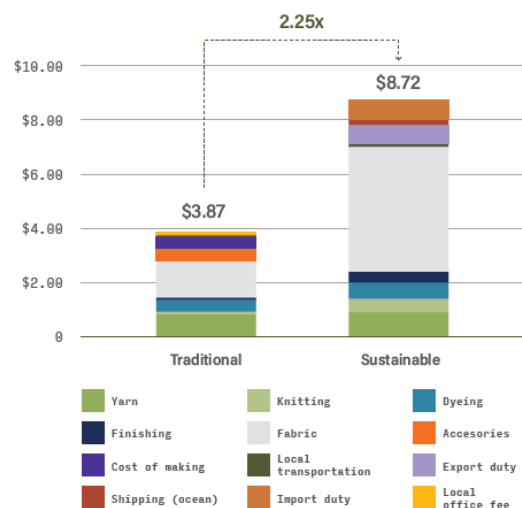
<sup>4</sup> European Union, Ecodesign for Sustainable Products Regulation (ESPR); (2) The European House – Ambrosetti elaboration of European Commission, 2022 and European Environmental Bureau, 2022.

**volume of waste exports to non-OECD countries**, accounting for **93.5%** of the total waste exports<sup>5</sup>, and has **quintupled its volumes to 1.7 million tonnes since 2000**<sup>6</sup>. The proposal has a dual objective: streamlining the process of shipping waste within the EU for the purposes of reuse and recycling and guaranteeing that waste sent beyond the EU borders is handled in an environmentally responsible manner<sup>7</sup>. However, it may risk leaving out the issue of **disguising waste as used goods**, as it calls for the adoption of additional delegated acts to specify criteria for distinguishing between used textiles and waste<sup>8</sup>.

- With 5 new legislation proposals relying on heavy product imports monitoring (i.e., 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 adding a significant **load on customs** in relation to the **fashion sector**<sup>9</sup>, which constitutes **5.25%** of total imports<sup>3</sup>.
- This adds on to an already complex management of border controls, which counts nearly **1,870 customs offices** and over **82,431 workers** who check **1.11 billion items each year**<sup>10</sup>, but hides substantial disparities in controls among EU countries, ranging from less than 1% of import declarations in certain countries to exceeding 60% in others<sup>11</sup>. Therefore, 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<sup>12</sup>.

2. **Crafting sustainable garments seems to be over 2 times pricier than conventional ones but promises 4 times as high profit margins. However, last year European consumers' expenditure shrunk for the first time since 2008 to below €700 per capita, while the price of energy for companies soared much more rapidly than raw materials', producers', and end products' prices. Hence, margins are a key factor in determining the ability of companies to back up a sustainable shift in production.**

Traditional and sustainable production costs composition by value chain activity compared<sup>12</sup>



<sup>5</sup> European Parliament, (2023)

<sup>6</sup> European Environment Agency, 2023

<sup>7</sup> 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

<sup>8</sup> The Or Foundation, 2023

<sup>9</sup> 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;

<sup>10</sup> European Commission, (2023)

<sup>11</sup> European Court of Auditors (2017);

<sup>12</sup> European Court of Auditors (2017);

## Key supporting evidence

- The average compound **production costs** of a **traditional basic cotton T-Shirt** lays around **\$3.87** – with a **twofold retail price** (up to \$8). On the other hand, case histories on sustainable production show how making a **Fair-Trade ethical cotton T-Shirt** can **cost up to \$8.72** with a retail price of around \$36 – a **fourfold market value**<sup>13</sup>.
- Companies may now face 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 fell by 13% to €662**, suggesting a reduced willingness to absorb a potential fourfold surge in prices<sup>14</sup>.
- Since early 2022, the surge in energy prices escalated production costs in the textile sector. **For many textile manufacturers, energy costs surged by over 20 p.p.**, reducing profit margins. While the crisis 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 dryers<sup>15</sup>.
- The **geopolitical instability** and **supply chain disruptions** are major drivers of the rising cost of raw materials in the fashion industry. In particular, in May 2022 **prices of materials** skyrocketed, especially for **cotton (+88%) and polyester (+45%)**, squeezing companies in the upstream part of the textile supply chain<sup>16</sup>.
- In this disruption scenario, those who can boast attractive margins may be more geared to market sustainable clothes at affordable prices for all. Thus, among the largest European fashion companies, **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 (**+3 p.p.**), gradually approaching the performance of the most profitable segments. **Mid premium companies may face the hardest challenges** in keeping up with the sustainable transition, as their margins are the lowest (9%) and grow at a slower pace (+1 p.p. over the triennium)<sup>17</sup>.

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<sup>13</sup> The European House - Ambrosetti elaboration on Sustainably Chic, True Cost Series | Why Does A Sustainable T-Shirt Cost \$36? (2023) and R. Hasan, et al., 2020

<sup>14</sup> The European House-Ambrosetti elaboration of Eurostat: Final consumption expenditure of households by consumption purpose (2023)

<sup>15</sup> The European House - Ambrosetti elaboration on Bcome, Sustainability Handbook for Resilient Fashion Business 2023 (2022) and The Wall Street Journal, Stacy Meichtry, Jenny Strasburg: Fashion Industry Gets Torn by Europe's Soaring Energy Bills (2022)

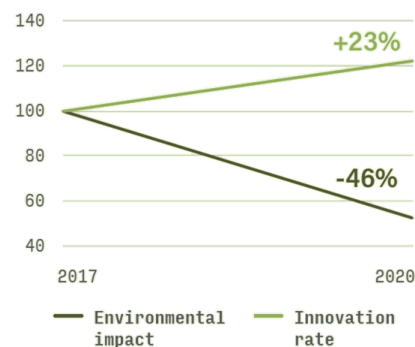
<sup>16</sup> The European House - Ambrosetti elaboration on Bcome, Sustainability Handbook for Resilient Fashion Business 2023 (2022) and The Wall Street Journal, Stacy Meichtry, Jenny Strasburg: Fashion Industry Gets Torn by Europe's Soaring Energy Bills (2022)

<sup>17</sup> The European House - Ambrosetti elaboration on all latest balance sheets publicly available information from largest EU companies



3. There is **no “environmentally better” textile**, as production impacts of plant-based, synthetic, and artificial fibres depend on the sustainability hotspot involved. However, in EU, textiles’ environmental footprint per unit produced seems to have declined on average by 46.3% in 4 years, while technological development advanced by 23.3%.

**Environmental impacts and innovation rate in EU textiles**



#### Key supporting evidence

- In terms of clothes and home textiles, **synthetic fibers** like polyester and nylon account for around **70% of the fibers used**. 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 to **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<sup>18</sup>.
- In 2020, the **EU-27** imported 8.7 million tonnes of textiles and produced **6.9 million tonnes of finished textile products**, specializing in carpets, household textiles, and other textiles. Textile-related activities led to **121 million tonnes of CO<sub>2</sub>eq emissions**, making textiles the fifth largest household contributor to climate change, used **175 million tonnes of primary raw materials** for textiles, consumed **24,000 million m<sup>3</sup> of blue and green water**, and occupied **180,000 km<sup>2</sup> of land**, equivalent to 400m<sup>2</sup> per person<sup>19</sup>.
- European Environmental Agency data on textiles’ environmental footprint trend between 2017 and 2020 show how the **households’ textiles environmental impacts per unit decreased on average by 46.3%**. During these years, calculation methodologies have been updated and this may have affected the **comparability** among performances. Yet, significant variations may be acknowledged<sup>20</sup>.
- In the same period of time, **technological development** in the industry **advanced by 23.3%**, driven mainly by **new patent registrations**<sup>21</sup>. 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’s sustainable transition<sup>22</sup>.
- 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

<sup>18</sup> European Environmental Agency, Plastic in textiles: towards a circular economy for synthetic textiles in Europe (2021) and European Environmental Agency, The role of bio-based textile fibres in a circular and sustainable textiles system (2023)

<sup>19</sup> 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).

<sup>20</sup> The European House - Ambrosetti Elaboration on European Environment Agency, Plastic in textiles: towards a circular economy for synthetic textiles in Europe (2021), European Environment Agency, Textiles and the environment: the role of design in Europe’s circular economy (2023)

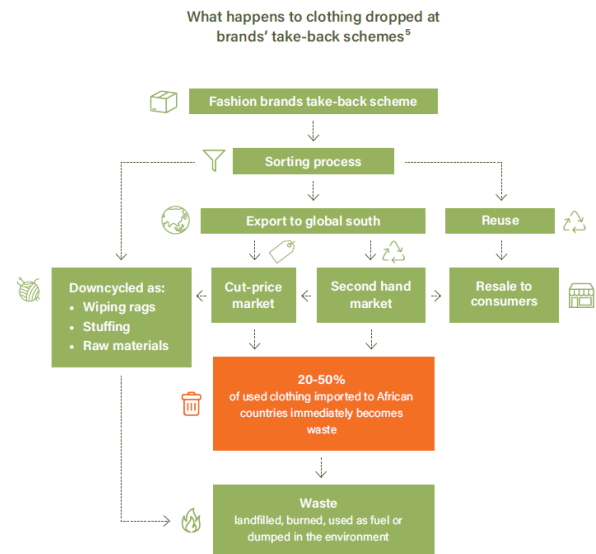
<sup>21</sup> The European House - Ambrosetti Elaboration EPO and Statista Data (2023)

<sup>22</sup> European Commission, Advanced Technologies for Industry – Sectoral Watch (2020)



**projected increase in technological innovation investment** in the sector from +1.7% in 2021 to **+3.5% in 2030**<sup>23</sup>.

4. **Awareness** on the relevance of sustainability is rising but product availability and lack of information are primary barriers for sustainable shopping. Moreover, 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, which are often doomed to be landfilled in African countries.



#### Key supporting evidence

- Globally, **58% of consumers** claim that having an **impact on fashion sustainability** is personally important to them but people 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<sup>1</sup>. **Younger shoppers** also point to **higher prices** as a hindrance; indeed, those generations are also the leading consumers of fast fashion<sup>24</sup>. The limited knowledge of the subject stands out as a hurdle too: in Europe, about **50% of people claims not to be sufficiently informed** on the topic<sup>25</sup>.
- Distinguishing between sustainable and non-sustainable brands or products remains a significant obstacle for many and this challenge grows proportionately with the age group, with **1/3 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) has expressed this concern<sup>26</sup>.
- The information gap is shown for example by the fact that approximately **30% of online purchases are returned, 70% of which marked as "change of mind"** by the consumer, also thanks to payment platforms that allow customers to settle their bills up to 30 days post-purchase<sup>3</sup>. However, most consumers seem to remain uninformed about the environmental repercussions of their actions, such as the significant portion of unwanted garments which often ends up in landfills<sup>27,28,29</sup>.
- An investigation conducted from August 2022 to July 2023 tracked items submitted to take-back programs, segmenting the path of clothes into resold to consumers,

<sup>23</sup> McKinsey, The State of Fashion technology (2022)

<sup>24</sup> ThredUp, Gen Z Fast Fashion Report, (2022)

<sup>25</sup> Institut français de la mode, Fashion markets in Europe and the United States: towards sustainable consumption? (2019)

<sup>26</sup> Bain & Company, How Brands Can Embrace the Sustainable Fashion Opportunity (2022)

<sup>27</sup> The New Yorker, What Happens to All the Stuff We Return? (2023)

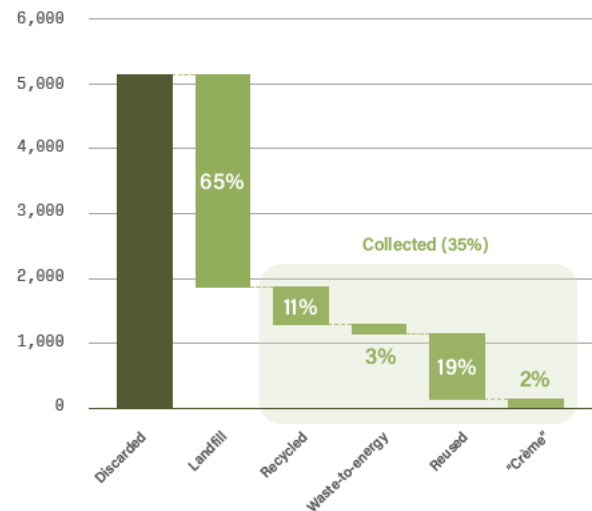
<sup>28</sup> BBC Earth, Your brand new returns end up in landfill

<sup>29</sup> The Guardian, Buy. Return. Repeat ... What really happens when we send back unwanted clothes? (2023)

downcycled, lost during their second-hand lifecycle or **shipped to Africa, where up to 50% of used garments immediately become waste**<sup>30</sup>.

5. EU consumers discard 5.2 million tons of textiles each year. **Recycling and reuse** are two possible levers for action, but each of them involves differentiated technical barriers and environmental impacts that need to be overcome. In this context, the **secondhand luxury** market grew by 28% in 2022 only, attracting over \$2.5 billion investments and \$8 billion M&As between 2021 and 2023.

EU textile waste volume and its composition by end-of-life destination (kton and %)<sup>1,5</sup>



Key supporting evidence

- Estimations on annual **textile waste** produced in Europe vary between 5.2 million and 7.5 million tons – equal to around **26 billion items of clothing** – and it’s projected to increase by 20% before 2030<sup>31</sup>. Over 60% of the discarded textiles are synthetic fibers, primarily composed of polyester<sup>32</sup>. Therefore, on average, every year out of **35 textile items discarded per capita** in EU, **3 get recycled** and **less than 1 is second-handed** inside the borders<sup>33</sup>.
- The **European textile recycling industry** is worth over \$4.6 billion holding a **29.6% share of the global industry revenues**<sup>34</sup>, and it is able to manage over 32% of the annually collected textile waste (around 700,000 tonnes)<sup>35,36</sup>. As collected garments are 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)<sup>37</sup>.
- Textile recycling faces persistent **challenges** linked to the **manual sorting capacity**, as individuals can 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

<sup>30</sup> The European House-Ambrosetti elaboration of Changing markets, Tack-back trickery: an investigation into clothing take-back schemes (2023)

<sup>31</sup> The European House – Ambrosetti elaboration on various sources

<sup>32</sup> 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)

<sup>33</sup> 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)

<sup>34</sup> Textile Recycling Market Size & Share - Global Report (2023)

<sup>35</sup> European Commission. Circular economy for textiles: taking responsibility to reduce, reuse and recycle textile waste and boosting markets for used textiles (2023)

<sup>36</sup> Swedish Environmental Research Institute, Sustainable clothing futures (2023)

<sup>37</sup> Textile Technology, Current challenges and solutions for the recycling of (mixed) synthetic textiles (2022)

usable yarns, all of which contribute to the complexity of the sorting process. On the other hand, **chemical recycling** demands **larger mass flows** for efficiency, considering energy-intensive processes and the need for high-quality purification<sup>38</sup>.

- **Reuse**, on the other hand, is proved to enable to **avoid up to 97% of CO<sub>2</sub> emissions** and **99% of water use** compared to chemical recycling. Yet, data highlight how the environmental benefits of reuse versus recycling are directly linked to the quality of garments considered, and their substitution rates – that is, the extent to which the purchase of a used garment 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<sup>39</sup>.
- The **secondhand luxury market** seems to have been growing rapidly, with a **28% increase in 2022** while the market was valued at approximately **\$24 billion in 2018**<sup>40</sup>. In the last 3 years, market saturation has led to consolidation, as existing players merge to capture larger market shares. Investments are primarily directed towards resale marketplaces, fashion and luxury rentals, e-commerce, technology, authentication services, investment firms, and venture capital<sup>41</sup>. 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**.

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<sup>38</sup> Swedish Environmental Research Institute, Sustainable clothing futures (2023) and Kuyichi, Mechanical vs chemical recycling

<sup>39</sup> 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).

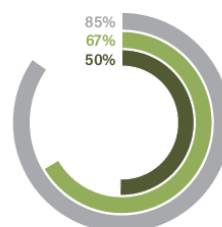
<sup>40</sup> Boston Consulting Group, What an Accelerating Secondhand Market Means for Fashion Brands and Retailers (2022)

<sup>41</sup> The European House Ambrosetti, Elaboration on The Fashion Law Data, A Running Timeline of Resale Funding and M&A (2023)

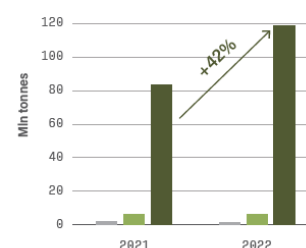
### 3 corporate shifts to accelerate the Just Fashion Transition

6. **Global businesses** are showing decisive responses, but hurdles remain to be overcome. 10 years after the Rana Plaza, garment workers are still being exploited, with less than 2% of workers earning a living wage and with an overall worsening in labor rights. Conversely, business' attention is rising on the climate issue, with CDP certified companies reporting on their Scope 1, 2 and 3 emissions that have more than doubled in just one year, while overall Scope 3 emission values increased by 42%, and 87% of retailers' indirect emissions are covered by decarbonization targets. In this context, irrelevant ESG-related remuneration might lead to greenwashing even though, as of today, out of 28 ESG disputes mapped globally, none resulted in penalties for making misleading green claims.

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



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



■ Scope 1 ■ Scope 2 ■ Scope 3

#### Key supporting evidence

- The aftermath of the **Rana Plaza collapse** led to increased scrutiny of supply chains and working conditions in the fashion industry. However, ten years after the Rana Plaza disaster only **1.5 million garment workers out of 75 million (<2%)** receive an **adequate salary**, have **formal employment contracts**, **stable work schedules**, or **labor law protections**<sup>42</sup>.
- **Labor rights violations** in the global fashion supply chain have worsened, especially concerning forced labor, modern slavery, and child labor<sup>43</sup>: **10 to 18-hour workdays**, even seven days a week during peak times, are common<sup>44</sup> and since Rana Plaza at least **109 other buildings** in Bangladesh **collapsed**, resulting in the **killing of 27 workers**<sup>45</sup>.
- The number of **CDP certified 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 emissions**.

<sup>42</sup> UNECE, UN Alliance aims to put fashion on path to sustainability (2018);

<sup>43</sup> Elaboration of The European House - Ambrosetti on Verisk Maplecroft & Business of Fashion Data (2021)

<sup>44</sup> Clean Clothes campaign, Working hours and overtime: 96-hour workweeks;

<sup>45</sup> Human Rights Watch, A decade after Rana Plaza safety flaws persists (2023);

- However, upon examining the absolute figures for the companies that reported the latter for both years, it can be observed a **42% increase in compound Scope 3 emissions**<sup>46</sup>. This may depend on the fact that companies are embracing increasingly **advanced calculation methods**, and it underscores the heightened focus that organizations are placing on assessing the environmental impact of their **supply chains**.
- Within the **30 top global fashion retailers, 12 address sustainability**. Among them much effort is directed on climate change: about **92% set quantitative targets on CO<sub>2</sub> emissions** and among these **58%** 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**<sup>47</sup>.
- On average, direct emissions (**Scope 1**) constitute just **1%** of total GHG emissions, and indirect emissions (**Scope 2**) account for **2%**. Most 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 actors' behaviors**<sup>48</sup>.
- When it comes to **linking executive compensation to ESG targets**, nowadays, the EU fashion sector still trails behind large S&P-listed companies. Specifically, out of **112 EU fashion businesses, only 18.75% have ESG-based executive compensation**, whereas the S&P 500 stands at 70%, with spikes in the **energy** and **utilities** companies where such share reaches **100%** and **96%**, respectively.
- If the correlation between compensation and ESG targets lacks quantifiability, there may be a risk of greenwashing. In fact, also in view of an increasing number of countries establishing regulations on green claims, **28 ESG disputes in textile and leather value chains** have occurred worldwide, involving **greenwashing**, forever chemicals Per-and polyfluoroalkyl substances (**PFAS**), or **Human Rights litigations**, 7 of those involved 5 of the biggest brands worldwide. Yet, no company suffered penalties for misleading green claims<sup>49,50,51</sup>.

<sup>46</sup> The European House Ambrosetti, Elaboration on Carbon Disclosure Project Data granted by Carbonsink (2023)

<sup>47</sup> The European House-Ambrosetti on publicly available data by AK PLAZA, Asos, Baymen, Bloomindgale's, Boozt, Decathlon, Farfetch, Harrods, Harvey Nichols, Holt Renfrew, House of fraser, Hyundai, Isetan, KaDeWE, Lane Crawford, Le bon marche, Lodenfrey, Macys, Mytheresa, Neiman Marcus, Nordstrom, Printemps, Rinascente, Saks, Selfridges, Shinsegae, Takashimaya, Vakko, Ynap, Zalando. In italic companies that do not have a structured sustainability reporting approach.

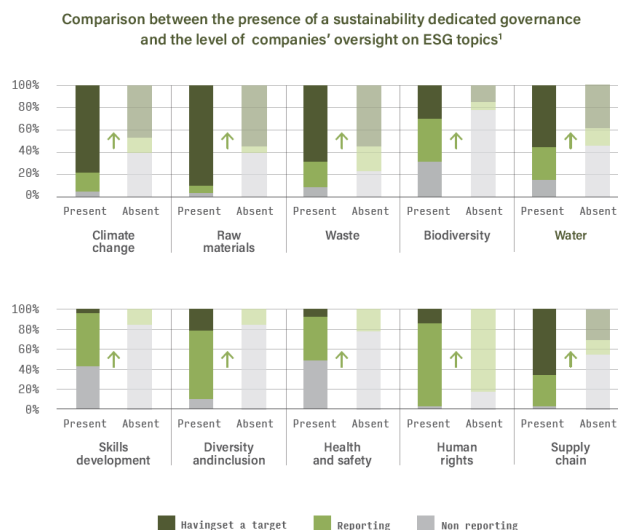
<sup>48</sup> The European House-Ambrosetti on publicly available data by AK PLAZA, Asos, Baymen, Bloomindgale's, Boozt, Decathlon, Farfetch, Harrods, Harvey Nichols, Holt Renfrew, House of fraser, Hyundai, Isetan, KaDeWE, Lane Crawford, Le bon marche, Lodenfrey, Macys, Mytheresa, Neiman Marcus, Nordstrom, Printemps, Rinascente, Saks, Selfridges, Shinsegae, Takashimaya, Vakko, Ynap, Zalando. In italic companies that do not have a structured sustainability reporting approach.

<sup>49</sup> The European House Ambrosetti Elaboration on The Sabine Centre Database (2023)

<sup>50</sup> Peikins C., ESG and the Apparel Industry: Always in Fashion (2023)

<sup>51</sup> The European House – Ambrosetti elab. on data from Greenberg T. S. M. from pub. available info

7. **European businesses oversight on sustainability increased by 17% from 2021, with 71 out of 100 European largest fashion companies already working on their just transition readiness, even if the best-in-class among them only fulfils 70% of the ESG oversight maturity requirements. On GHG emission, among those who regularly reported in the last 4 years, a 37% compound reduction of Scope 1 and 2 values was clearly visible<sup>52</sup>. A link between oversight and performance improvements is still hard to see, while companies with a structured ESG Governance and sustainability linked MBOs outperform their peers by an average of 36%. While oversight is increasing year on year for most topics, some are left behind: biodiversity is the least explored topic by most companies.**



#### Key supporting evidence

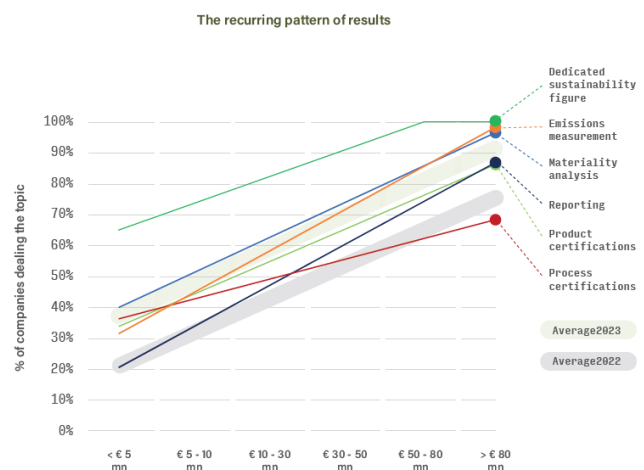
- The **100 largest European companies** in the fashion industry that will fall in the CSRD perimeter were analyzed to measure their transition readiness. In particular, the panel has been inquired according to **oversight** (whether companies have management tools in place) and their **performance** (reporting and trend of KPIs) on the **11 ESG dimensions** that are at the basis of ESG reporting requirements. The analysis has been conducted exclusively based on publicly available documents: **29% still do not have a structured sustainability reporting**.
- Since 2021, **3 additional companies started reporting targets** in 2022, shifting the total from 68 to 71 companies. The average oversight score in 2021, excluding companies that did not report, was 0.34. This rose to 0.40 in 2022, amounting to a **17% raise overall in oversight score, with 55 companies improving their oversight**, while 39 remaining steady (including the 29 that still don't publish sustainability reports) and **6 companies worsening**.
- To understand the impact oversight has had on overall company performance, performance acceleration and oversight levels have been compared: **none of the companies scores the top in oversight, and the best-in-class only complies with 70% of the total requirements**. Moreover, data shows that it is very difficult, even for regular reporters, to consistently improve overall performance, thus demonstrating how oversight is not enough to encourage change – **intensive management is needed**.

<sup>52</sup> 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.



- The importance of climate change and the effect caused by GHG emissions have been one of the first topics addressed by companies. Yet, only **23 companies** continuously reported their **Scope 1 and 2 emissions** in the last 4 years, registering a compound **reduction of 37% of emissions** during the period. 2020 played a role as accelerator to the Net Zero goal, with a 27% reduction compared to the previous year. In 2021 emissions remained steady, while in **2022** there occurred another **reduction of 15%**.
- The level of oversight is increasing for almost all environmental topics. However, **3%** of the companies still **does not report performance on or has set targets on at least one environmental topic** (2 p.p. less than the previous year).
- **16 companies** shifted from a qualitative approach to a definition of **quantitative targets on raw materials use**, with only one case of long-term goal. While 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, up by 40 p.p. from last year's 39%. Nevertheless, **only 4 companies disclosed a KPI to measure their commitment**. On the other hand, **water is the only topic that remains stable** with **22%** of companies having set **quantitative targets**.
- The firms with a **dedicated Sustainability function are 36% more likely to oversee ESG topics** compared to the others. **Remuneration** plays a key role too, with MBOs and LTIs further driving disclosure and performances: **100%** of companies equipped with ESG management incentives schemes have defined a **goal on at least 3 different topics**.

8. In the **Italian supply chain**, company size and sustainability remain directly proportional, but the oversight on ESG issues improved by an average of 16% year on year. Customer pressures towards the transition in supply chain companies is rising, and so are financial stakeholders' expectations, driven by the Green Deal approach. However, EU strategic orientation seems not to be always aligned with the business point of view, especially on market approach. Thus, it may not be completely fit to trigger the market potential in accelerating the sustainable transition.



#### Key supporting evidence

- Along the **Italian fashion supply chain**, ESG issues oversight and firm size remains proportional. Yet, companies in the Italian supply chain have **improved by an average 16%** year on year, driven by the definition of a **dedicated sustainability function (+33%)**



and the development of an **ESG reporting process (+26%)**. **Social issues** are more closely overseen than environmental ones, while **supply chain monitoring still lags behind**.

- Certain issues underscore the influence of firm size even more conspicuously. For instance, **all companies exceeding €50 million turnover** have a **dedicated sustainability function**, likely in response to the regulatory obligations they must fulfill. Conversely, the **weakest point** appears to be in **process certification** matters.
- 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** and reaching almost **80% of companies with over \$50 million turnover**.
- Companies were asked to indicate their **strategic orientation** towards transition according to 3 different dimensions: Values (Conservation vs Change), Economy (Institutions vs Market), Time (Gradual transformation vs Radical transformation). Responses show how the **Italian supply chain seeks change, market-institution balance, and radical transformation**.
- The same analysis has been conducted on 15 pivotal policies and regulatory mechanisms outlined within the **European Union Strategy for Sustainable and Circular Textiles**. Results indicate that the most significant misalignment may be traced back to the Economy dimension, with the **European Union promoting a top-down approach** whereby representative bodies are in charge of defining rules that bind the community to adopt more sustainable behaviors, while **companies tend to favor a market-based approach**, where responsibility for driving change is entrusted to market dynamics.
- Findings seem 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 **Inflation Reduction Act** is achieving in the USA.

## The 8 proposals for a global just fashion transition

		Why	Implementation		
			No	Partial	Yes
I.	Anticipate the market transition	Orienting and focusing the action of companies towards the (early) adoption of the voluntary and mandatory instruments that the EU is developing as global leader on sustainability, with the aim of providing feedback and recommendations for improvement, too.		●	
II.	Build multi-stakeholder task-forces led by Governments	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.	●		
III.	Catalyze 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 - European Sustainability Reporting Standards and IFRS - International Financial Reporting Standards).	●		
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 over their consumption habits by breaking the barrier between the intention of buying sustainable and the actions taken.	●		
VI.	Create 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.	Make sustainable business choices more profitable	Unleashing and harnessing 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).			New
VIII.	Promote an integrated approach between recycling and reuse	Creating 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-material garments.			New