3RD EDITION

VENICE SUSTAINABLE FASHION FORUM

OCTOBER 24TH – 25TH, 2024

JUST FASHION TRANSITION 2024

STUDY CONDUCTED BY The European House Ambrosetti

JUST FASHION TRANSITION 2024

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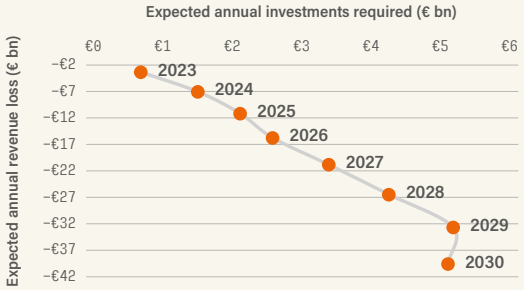
JUST FASHION TRANSITION 2024: NO TIME TO THRIVE (AS LONG AS THE MARKET IS UNSUSTAINABLE)

1 THE EU FASHION INDUSTRY MAY MEET ITS CLIMATE TARGETS 8 YEARS BEHIND SCHEDULE

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

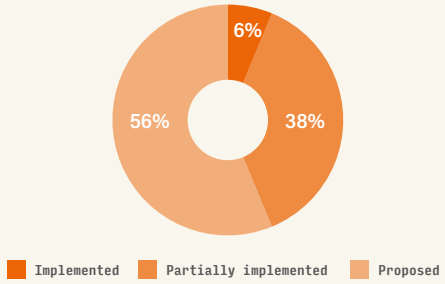
Investments required vs. expected revenue loss in a Fit for 55 scenario



2 CLEAR DECISION-MAKING AND COMPETITIVENESS CAN BE HELD BACK BY INTENSIVE AND INCOMPLETE REGULATORY FRAMEWORKS

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

Status of EU regulations affecting fashion sector



3 THE FINANCIAL SECTOR DOES NOT HAVE ALL THE LEVERS TO DRIVE A JUST FASHION TRANSITION IN EU, YET

Without adequate financial supports and regulatory framework to facilitate access to sustainable funds on capital markets, the transition risks falling underfunded, exacerbating inequalities especially among **SMEs,** which nowadays represents **almost 98% of the whole industry.** As of today, **only 35% investments** dedicated to European SMEs' transition have been supported by **external financing,** and **only 16%** of these actually **qualifies as "sustainable".**

Sustainable external financing sources among european SMEs

~16%

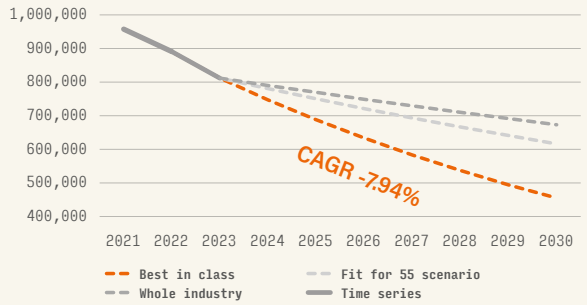
The average external financing qualifiable as sustainable finance, with a broad definition of the term "sustainability"

JUST FASHION TRANSITION 2024: NO TIME TO THRIVE (AS LONG AS THE MARKET IS UNSUSTAINABLE)

4 1 OUT OF 3 AMONG EU TOP 100 FASHION COMPANIES IS UP TO SPEED WITH DECARBONIZATION, THE REST IS FAR BEHIND

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

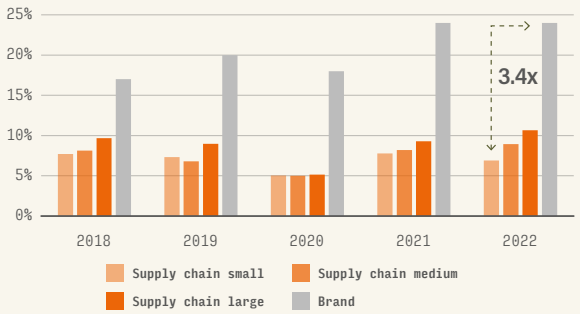
Best in class, EU fashion industry emissions and fit for 55 decarbonization scenarios (tCO_2)



5 LACK OF SKILLS AND LOW MARGINS MAKE ITALIAN SUPPLY CHAINS STRUGGLE WITH SWIFT CHANGES

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

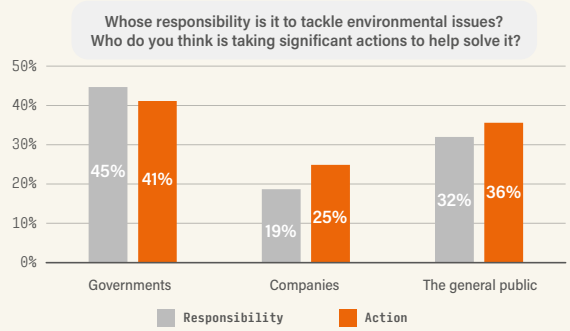
EBITDA-turnover ratio among the value chain (2,686 italian supply chain companies vs. 281 EU brands)



6 AS BUSINESS AND CITIZENS ARE ALREADY DOING ENOUGH, IT IS UP TO GOVERNMENTS TO PLAY THEIR PART, CONSUMERS SAY.

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

EU consumers' opinion on responsibility vs. action



REIMAGINE FASHION INDUSTRY: PROPOSALS FOR A EUROPEAN JUST FASHION TRANSITION 2030

TO INSTITUTIONS

I. PROMPTLY CLOSE THE REGULATORY GAP

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

II. SIMPLIFY FINANCING FOR SMEs

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

TO INDUSTRY PLAYERS

III. BOOST COMPETENCIES AND R&D

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

IV. DEVELOP FASHION NATIONAL INDUSTRIAL PLANS

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

V. CONCENTRATE TO INCREASE COMPETITIVENESS

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

JUST FASHION TRANSITION 2024: INDEX OF THE STUDY

INTRODUCTION AND PARTNERS OF THE STUDY

Just Fashion Transition 2024 is the strategic study developed by TEHA as an annual observatory on the sustainable transition of key fashion sectors: textile, clothing, knitwear, footwear, leather goods, tannery.

In line with previous editions, the study continues to serve as a dashboard for decoding the complexities of sustainability in fashion. Just Fashion Transition 2024 provides effective, evidence-based knowledge to support the Venice Sustainable Fashion Forum, a unique initiative made possible through the joint efforts of Confindustria Veneto Est, TEHA, and Sistema Moda Italia.

Now in its 3rd edition, thanks to the support of 19 partners, the Forum remains the annual flagship event on Sustainability in the Fashion industry, offering in-depth analyses of specific topics vital for shaping the industry's sustainable future. The Forum continues to bring together companies from all stages of the supply chain to prioritize challenges, chart a mutually agreed-upon path of change, and initiate an effective transformation roadmap based on scientific and measurable evidence.

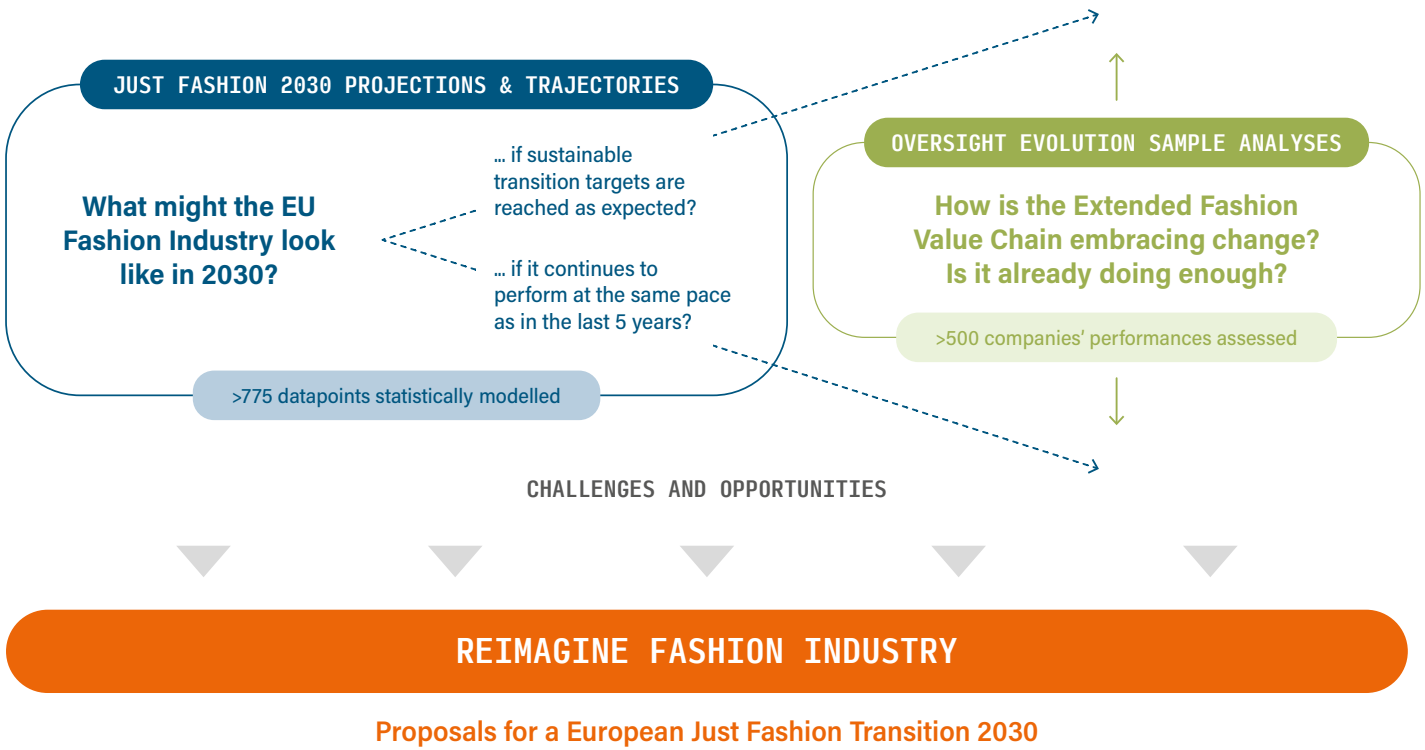
DIAMOND PARTNERS

PLATINUM PARTNERS

PARTNERS

GOALS AND KEY QUESTIONS WHICH GUIDED THE DEVELOPMENT OF THE STUDY

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



METHODOLOGY: ASSUMPTIONS ON SCOPE, DATA SOURCES, VARIABLES

SCOPE OF THE ANALYSIS

Based on data form previous editions, projections towards 2030 were developed using information specific to European markets, i.e. setting the European continent as perimeter. In particular, when analyzing the economic performance of the macro-sectors of the industry, the following NACE codes were isolated[1]: C13 Manufacture of textiles, C14 Manufacture of wearing apparel, C15 Manufacture of leather and related products.

BASIC VARIABLES CONSIDERED AND INDEPENDENT FACTORS

To ensure realistic and plausible assumptions, variables across 3 key dimensions of sustainability were identified and used as independent factors: Economic (GDP and turnover), Social (Population), Environmental (CO_2 emissions). Thus, using these dimensions, 2 main forecasts were elaborated:

- As is - calculated by projecting trends according to 2018-2022 Compound Annual Growth Rate (CAGR), acknowledging the impact of the pandemic crisis and the slowdown experienced in early 2024.
- Fit for 55 - based on repartitioning performance on EU's 2030 emission reduction target by Fit for 55 plan (55% by 2030 with respect to EU-27 1990 performances).

SOURCES AND GEOGRAPHICAL REFERENCES

Authoritative sources were relied on, preferring data produced by international institutions or organizations that provide European coverage. Where feasible, the focus has been put on extracting raw primary data from 2018-2022 period to build the 2030 forecasts, addressing any data gaps during the database cleanup phase. Where necessary, any variations from the perimeter described herein have been specifically indicated.

DATA AVAILABILITY AND RELIABILITY

The study notes the absence of a standardized definition for the "fashion industry," leading to variations in data scope. Sometimes, only specific categories like apparel or textiles are considered, excluding important elements. In other cases, product categories with overlapping scopes are aggregated, causing overestimation. Industry segmentation also varies depending on the source, with common categories like luxury, premium, mid-market, value market, sportswear, fast fashion, and mass market being inconsistently defined.

The benchmark analysis of large European companies relies solely on publicly available sustainability and annual reports as of early September, with no later updates included. Some data were manipulated for comparison, but this didn't affect its validity. The study emphasizes the lack of coherence and reliability in data on fashion sustainability, though it acknowledges the value in efforts to quantify these uncertain or unclear areas.

(1) Though the complexity of the industry articulates much futher than selected NACE codes (i.e finished product, semi-finished products, packaging, etc.), for the Study purpose we chose to start isolating comparable economic activities. NACE codes where choses following Euratex's Facts & Figure 2024 approach.

THE SOURCES AND THE ANALYSES THE STUDY COUNTS ON

PROPRIETARY ASSESSMENTS

373 Italian companies assessed thorugh a sustainability assessment questionnaire

100 Largest EU fashion companies assessed on their ESG oversight and performance

30 Global retailers assessed on their sustainability oversight and performance

PROPRIETARY ELABORATIONS

>2,9K Economic performances of companies among the Italian supply chain and the EU main fashion brands analyzed

>26K Global respondents - consumer statistics sample

>775 Datapoints on EU fashion industry performanceanalyzed to elaborate 2030 scenarios

PUBLIC SOURCES

>45 Scientific articles, papers, and informative reports consulted

32 European policy measures or frameworks analyzed

>25 Databases extracted and analyzed at European level

This symbol highlights throught 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** | Presidente, **Albini Group**
- **Agostino Apolito** | General Director, **Assomac**
- **Mauro Bergozza** | Vice President, **Assomac**
- **Pietro Bertelli** | Responsabile Strategic Marketing, **Alperia Green Future**
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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** for circulating the questionnaire to their members as well as **Gianni Versace, Giorgio Armani,** and **Bottega Veneta,** for involving most of their suppliers. Their contribution has been crucial to ensure the depiction of a solid and coherent picture of the Italian fashion supply chain.

We also thank **Kantar** for providing a vast and extraordinary global consumer preferences database - Kantar is a world leader in brand advisory and insight. It supports clients in understanding the reality and defining marketing and communication strategies for their brands.

WORKING GROUP

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

- Elena Antiga | Senior Manager – Global Fashion & Luxury Unit
- Giulia Avallone | Consultant – Sustainability Practice
- Carla Avanti | Senior Consultant – Global Fashion & Luxury Unit
- Giulio Benelli | Senior Consultant – Sustainability Practice
- Adele Fusi | Senior Manager – Sustainability Practice
- Benedetta Landi | Consultant – Special Events
- Enrico Lobietti | Analyst – Sustainability Practice
- Margherita Melazzini | Consultant – Sustainability Practice
- Madi Piano Mortari | Associate Partner – Special Events
- Matteo Rimini | Manager – Sustainability Practice
- Francesca Rizzi | Senior Consultant – Global Fashion Unit
- Flavio Sciuccati | Senior Partner – Global Fashion Unit
- Enrico Stroppa | Consultant – Special Events
- Loredana Urso | Assistant

1.

JUST FASHION 2030

WHAT MIGHT THE EUROPEAN FASHION INDUSTRY LOOK LIKE IN 2030 AT CURRENT TRENDS, AND WHAT KEY DIMENSIONS SHOULD BE PRIORITIZED TO ACHIEVE THE GREATEST POSITIVE IMPACTS AND ACCELERATE THE ACHIEVEMENT OF EU TARGETS?

KEY MESSAGE
1.1

GLOBAL SUSTAINABLE TRANSITION CONTEXT

GLOBALLY, THE SUSTAINABLE TRANSITION PRESENTS A DUALITY OF **SIGNIFICANT RISKS AND PROFOUND OPPORTUNITIES** FOR INNOVATION, NECESSITATING **STRATEGIC FORESIGHT** AND **AGILITY TO THRIVE.**

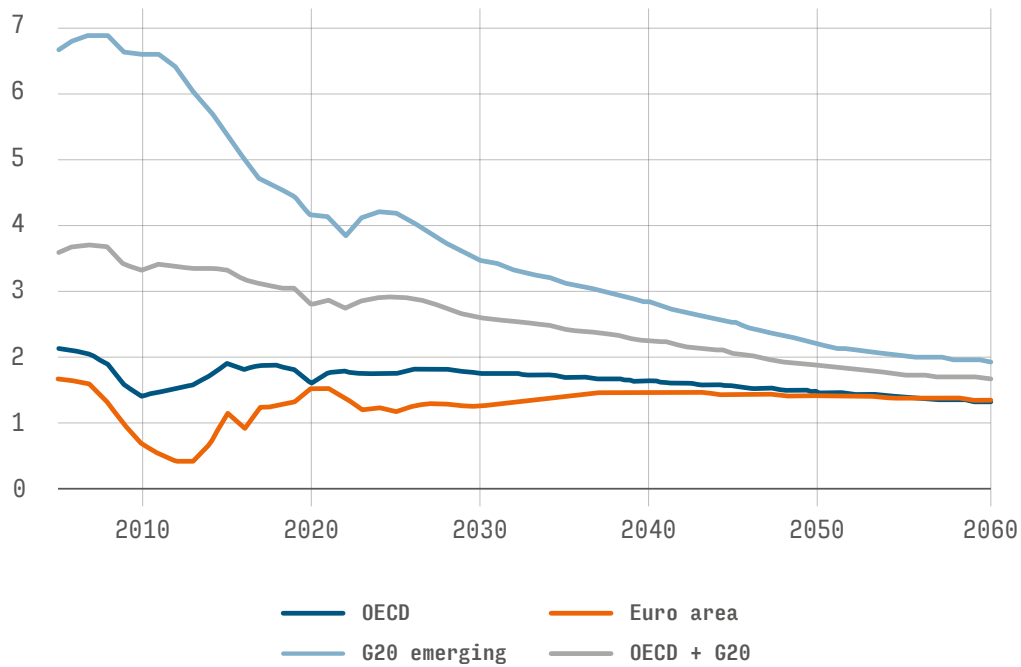
REAL GDP GROWTH CONTINUES ITS SLOWDOWN IN BOTH ADVANCED AND EMERGING ECONOMIES

The 2024 update of OECD long-term scenarios marks a significant milestone, as it is the first to include low-carbon energy transition effects in the analysis on macroeconomic trends and policy challenges facing the global economy. The latest edition begins with a baseline projection representing a business-as-usual scenario, which serves as a reference point for evaluating the economic impacts of the transition. The update also details improvements to the OECD's global long- term model (LTM) to factor in energy consumption and related CO_2 emissions. Furthermore, it outlines a hypothetical scenario where both OECD and non-OECD G20 countries successfully transition to low-carbon energy in alignment with a net-zero greenhouse gas emissions goal by 2050. These improvements are based on various sources, with a key focus on CO_2 mitigation costs simulations from the OECD's ENV- Linkages model.

According to such projections, the annual growth of the OECD output is expected to fall from current 1.8% to 1.7% by 2035, then further to 1.3% by 2060, mainly due to the declining growth of the working-age population[1].

For the G20 emerging markets specifically, the potential growth rate is expected to decrease from 4.5% before 2020 to 3% by 2030 and 2% by 2060[1].

Real GDP trend growth by area (%)[1]



(1) OECD: Long term scenarios: incorporating the energy transition (2023).

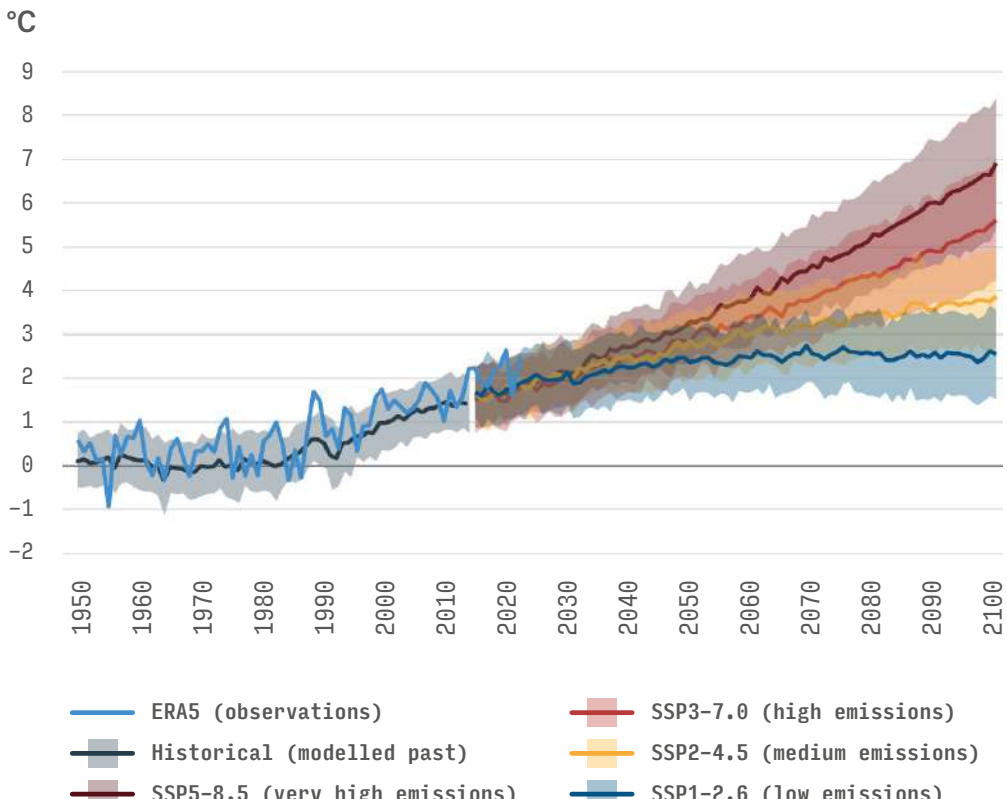
EUROPE IS THE FASTEST-WARMING CONTINENT: 2023 MARKS THE HOTTEST YEAR AS CLIMATE RISKS ESCALATE

Globally, 2023 was the hottest year on record, with European average temperatures exceeding pre-industrial levels by 1.5°C[1].

The effects of such an alteration have been analyzed through the first European Climate Risk Assessment (EUCRA) conducted by the European Environmental Agency. The study identifies 36 climate risks that pose a threat to Europe's energy and food security, ecosystems, infrastructure, water resources, financial stability, and people's health. It shows that many of these risks have already reached critical levels and can become catastrophic without urgent and decisive action.

Specifically, the warning issued by scientists is that without immediate action, most climate risks could reach critical or catastrophic levels by the end of the century – especially in Southern Europe – resulting in hundreds of thousands of deaths from heat waves and economic losses from coastal flooding alone potentially exceeding €1 trillion per year[1].

Observed and predicted temperature rise in Europe (°C)[1]



(1) European Environmental Agency: European climate risk assessment 2024 (2024).

AVOIDING THE DAMAGE CAUSED BY CLIMATE CHANGE CAN FUEL A NET RISE OF 7% IN GDP BY 2050

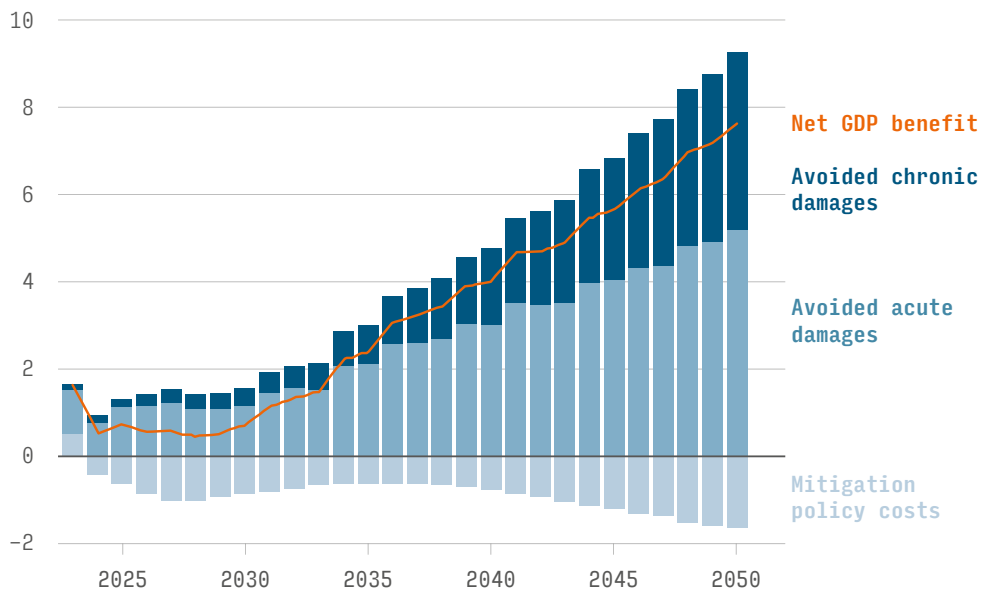
According to the latest climate scenarios from the Network for Greening the Financial System (NGFS) —a coalition of 127 central banks and financial regulators—building a lower-carbon future is essential and beneficial for the economy.

While global temperatures are rising unevenly, they have increased by an average of 1.2 °C since pre-industrial times. In this scenario, economic and financial risks are rising too.

NGFS models indicate that droughts and heatwaves pose significant risks across different regions, with Europe and Asia particularly vulnerable to heatwaves, while Africa, North America, and the Middle East face greater risks from droughts. Transitioning to a low-carbon economy may initially reduce demand due to higher carbon prices and energy costs, but these impacts can be mitigated by reinvesting carbon revenues into public projects and reducing employment taxes. Moreover, cutting emissions will ease the physical impacts of climate change, lowering macroeconomic costs in the long run. Achieving a net-zero economy will require considerable investment in green electricity and energy storage, accompanied by complex policy trade- offs.

However, this transition could yield substantial economic benefits, with global GDP projected to be 7% higher by 2050 under net-zero policies compared to current measures. This emphasizes that while the transition may involve short-term challenges, the long-term economic upside is profound[1].

Potential benefit to global GDP from net-zero emissions transition by 2050 (% variation from baseline)[1]



(1) International Monetary Fund: Benefits of Accelerating the Climate Transition Outweigh the Costs (2023).

KEY MESSAGE
1.2

EU INDUSTRY OCCUPATIONAL AND PRICING TRENDS TOWARDS 2030

AT CURRENT TRENDS, IN THE FASHION INDUSTRY A **DECLINE IN EMPLOYMENT NUMBERS** IS FORECASTED, DESPITE STEADY GROWTH IN BOTH TURNOVER AND NUMBER OF ENTERPRISES.

BY 2030, THE EUROPEAN TEXTILE, LEATHER AND FASHION INDUSTRY COULD GROW UP TO 11%, REACHING A TURNOVER OF ABOUT €227 BILLIONS

Following the pandemic-induced slowdown, the EU fashion industry regained its growth momentum in 2022, achieving a compound turnover accounting of approximately €204 billion, and nowadays Europe represents approximately 10% of the global market value[1,2].

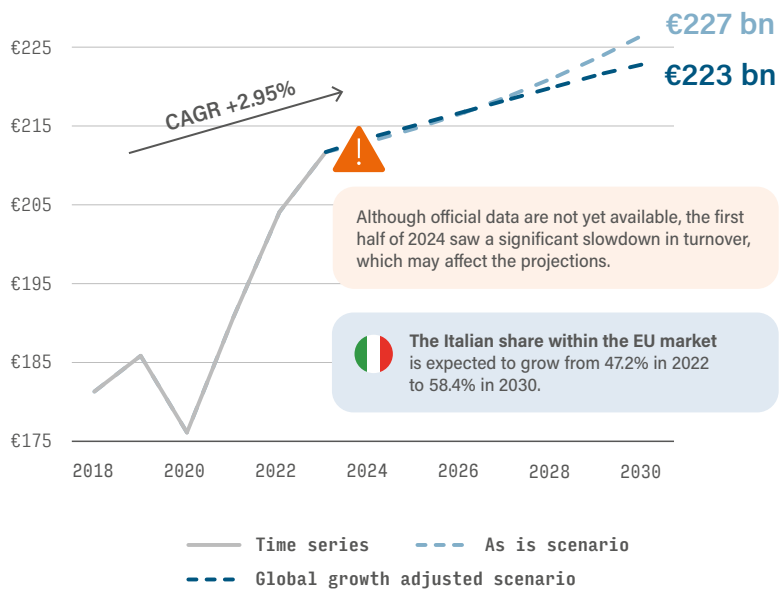
Based on the latest available data, in the as-is scenario, the industry turnover is projected increase by 11% (+ €22.8 billion) between 2022 and 2030. Such projections follow a CAGR recorded between 2018 and 2022 of 2.95%1. Instead, according to OECD's more cautious estimates, in a global growth adjusted scenario it is possible to expect the EU fashion industry to still perform well but with growth limited to +9% (+ €18.9 billion)[3].

In this context, textile manufacturing will account for more than half of the total turnover (53%), with the manufacture of leather and related products making up to 29% and of wearing apparel contributing for 18%[1].

The Italian fashion industry, renowned for its craftsmanship and luxury brands, consistently ranks among the top globally in terms of turnover. In 2022, its market share was estimated at around 47.2% of the overall European one, reflecting mainly the strength of iconic luxury brands, and it is projected to rise to over 58.4% by 2030.

In comparison, the French fashion industry, home to major houses, also commands a significant share of the market. Its turnover is comparable, often estimated slightly higher, largely due to its strong presence in luxury goods and accessories. On the other hand, the Spanish fashion industry has lately seen impressive growth, particularly in the fast fashion sector. Its turnover is lower, around €25 billion, but it continues to expand rapidly focusing on the affordability and accessibility of products.

EU textile, leather and clothing industry turnover (billion €)[1,2]



(1) TEHA elaboration on Eurostat: Annual detailed enterprise statistics for industry from 2018 to 2022 (retrieved on 06/06/24); (2) Euromonitor International for Fashion United (2023); (3) TEHA elaboration of OCED: Real GDP long-term forecast FROM 2018 to 2030 (retrieved on 06/06/24) - OECD data are not adjusted for inflation.

LOOKS LIKE EMPLOYMENT IS SINKING, WITH ALMOST 366,000 JOBS AT RISK BUT A STEADILY GROWING PRODUCTIVITY PER WORKER

The overall decrease in the workforce is a long-standing trend in the European industry, taking root even before the onset of the COVID-19 pandemic, with more than 230,000 jobs lost between 2018 and 2022[1].

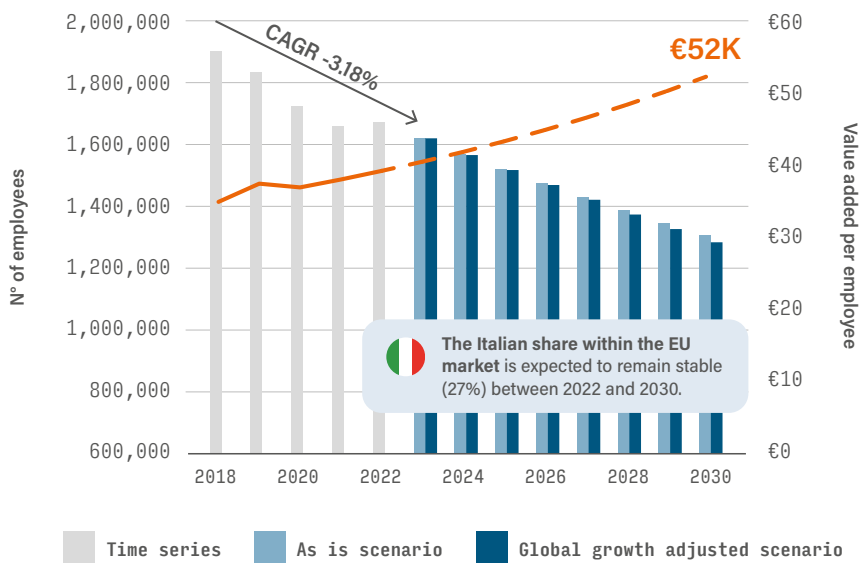
Nevertheless, while according to the as-is and global growth adjusted scenario jobs are projected to shrink respectively by -19% and -21% between 2022 and 2030[2], the impacts do not seem evenly distributed among the different segments. Most losses would be recorded in the wearing apparel (64%), while 22% would be attributable to the leather segment and only 14% to textiles[1].

At the same time, the value added per employee – which already increased by 12% between 2018 and 2022 – is expected to grow further over the next 6 years, surpassing €52,000 (+33.5% from 2022)[2]. This trend suggests that the main drivers behind the phenomenon are technological innovation and labor offshoring[3,4].

The Italian fashion supply chain leads Europe in terms of employment and plays a pivotal role in the country's manufacturing sector, employing approximately 450,000 workers, which represents 11.7% of Italy's total manufacturing workforce. France, though at a considerable distance, counts 121,000 employees in the sector. The workforce is primarily distributed across wearing apparel (36.4%), textiles (31.8%), and leather manufacturing (31.7%). Similarly, Spain employs approximately 120,000 workers, the majority of whom (39.8%) are concentrated in the wearing apparel industry[1].

These figures emphasize Italy's dominant position in the European leather industry, driven by its deep-rooted tradition in craftsmanship and high-quality production.

EU textile, leather and clothing industry employment (n°) and productivity (€ of value added per employee)[1,2]



(1) TEHA elaboration on Eurostat: Annual detailed enterprise statistics for industry from 2018 to 2022 (retrieved on 06/06/24); (2) TEHA elaboration of OCED: Real GDP long-term forecast; (3) McKinsey & Company, The State of Fashion: Technology (2022); (4) OECD, Offshoring, Reshoring, and the Evolving Geography of Jobs: A Scoping Paper (2024).

THE AGGREGATE NUMBER OF ENTERPRISES GROWTH IS PROJECTED TO CONTINUE, EXCEPT FOR DECLINES OF ALMOST 5,000 IN THE LEATHER SECTOR

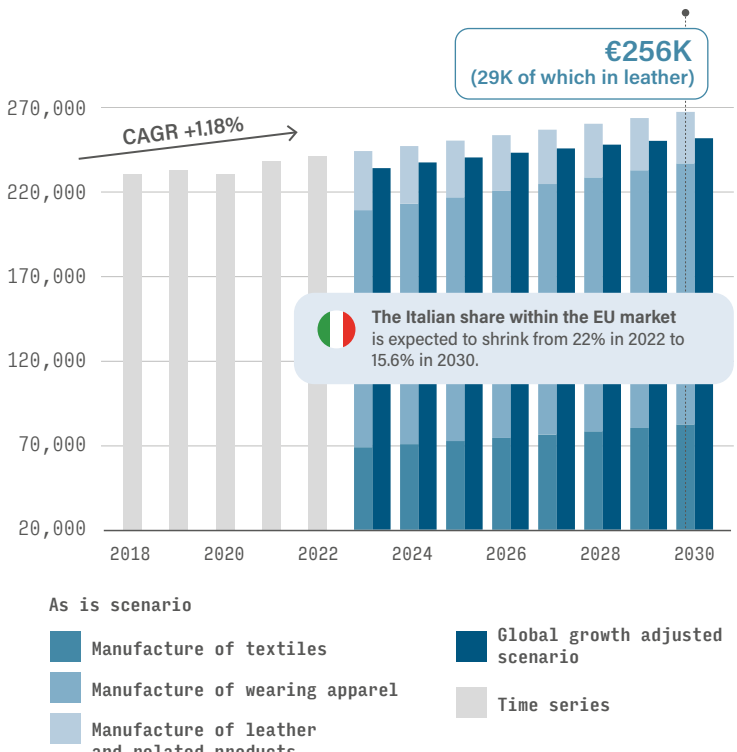
The pandemic slowdown has not affected the overall number of enterprises, with 2022 figures suggesting a general stability across the sector[1,2].

Between 2022 and 2030, the number of European manufacturing of textiles and wearing apparel companies will experience an increase by 2.53% and 1.40% respectively, highlighting the resilience and potential for growth despite industry-wide challenges. In contrast, the Italian industry is expecting widespread contraction of around -15.5%, continuing 2018-2022 trends. On the other hand, France is set to strengthen its presence in the fashion market, with increases in the manufacturing textiles (CAGR +16%), wearing apparel (CAGR +13.2%) and leather and related products (CAR +10.1%). Meanwhile, it is expected to lose market share in leather manufacturing (CAGR -3.2%) while remaining on other segments.

Such market concentration, when compared to expected turnover increase, could indicate a trend towards aggregation to meet market challenges requiring significant and growing investment management capabilities.

The EU leather industry, however, faced a CAGR of -1.94% between 2018 and 2022, with about 2,776 companies closing. Furthermore, by the 2030, the number of leather companies is expected to shirk by 14.53% relative to 2022 levels. With advancements in lab-grown leather and other vegan alternatives (i.e. pineapple and mushroom-based materials), the industry is increasingly exploring alternative options to traditional animal leather[3].

EU textile, leather and clothing industry enterprises (n°)[1,2]



(1) TEHA elaboration of Eurostat: Annual detailed enterprise statistics for industry from 2018 to 2022 (retrieved on 06/06/24); (2) TEHA elaboration of OCED: Real GDP long-term forecast; (3) TEHA elaboration of Euronews: Is fashion ready to say goodbye to leather? (2024).

EUROPEANS WILL KEEP SPENDING ANNUALLY OVER €396 BILLION IN FASHION, WITH AVERAGE UNIT PRICES GROWING BY 2.59% EACH YEAR

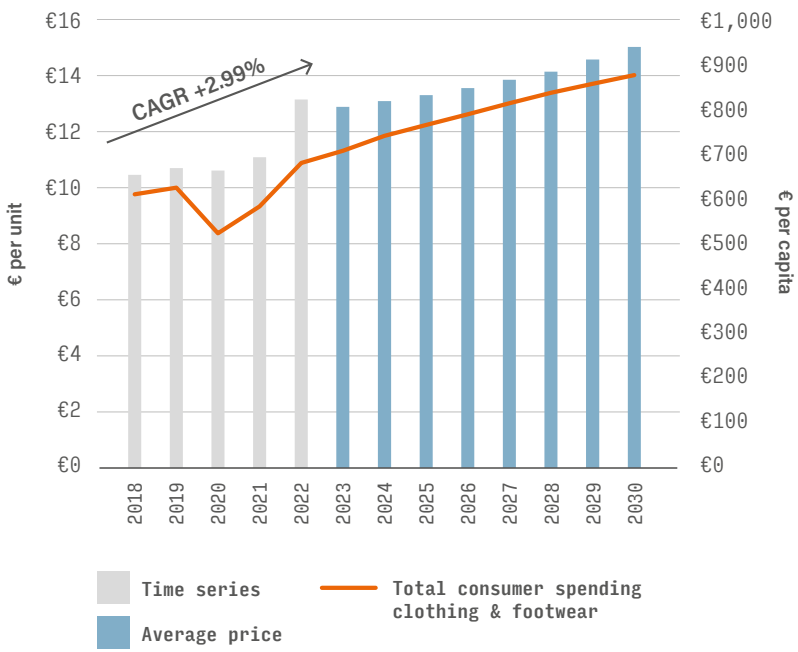
The decline in per capita spending on clothing and footwear, from €625.20 to €532.40 between 2019 and 2020, can largely be attributed to the economic disruptions brought on by the COVID-19 pandemic[1,2]. Available data support the hypothesis, that, during this period, European consumers reduced their expenditure on fashion product by around 17%, underscoring changes in their behaviour and discretionary spending patterns[2].

Since then, also influenced by inflation, an upward trend has characterized European per capita spending, particularly driven by men's clothing, which already grew from €15.62 per unit in 2018 to €18.99 per unit in 2023[1]. Additionally, foreign tourism and travel retail have influenced such trend, too.

Consumer spending on apparel is projected to surpass €396 billion in total by 2030, accompanied by an overall increase in unit prices.

Yet, a clear long-term trend should be taken into consideration. In 2000, the average EU consumers allocated 6.4% of their disposable income to clothing and footwear, but by 2022, this figure dropped to 4.3%. Despite overall growth in disposable incomes, this nearly 28% decline in the relative share has posed a significant challenge for apparel consumption. This trend is reflected across all high-income countries. As the share of goods in consumer spending decreases - since people have accumulated enough - expenditures on services such as housing, transport, recreation, and healthcare are on the rise. Additionally, such shift highlights an aging population, a defining trait of European society, that will further impact clothing consumption. It is worth noting that, on average, an 18-year-old, despite having a lower disposable income, tends to purchase significantly more clothing than an 80-year-old.

Average price for children, men and women's apparel (€ per unit) and consumer spending on clothing & footwear (€ per capita)[1,2]



(1) TEHA elaboration on Statista: Apparel – Europe (retrieved on 14/06/24); (2) TEHA elaboration on World Economic Forum: This is how COVID-19 hit household expenditure in Europe (2021).

KEY MESSAGE
1.3

DECARBONIZATION PATHWAYS TOWARDS 2030

TO ACHIEVE FIT FOR 55 DECARBONIZATION TARGETS, ADDITIONAL **SIGNIFICANT INVESTMENTS IN GREEN TECHNOLOGIES** AND SUSTAINABLE SOLUTIONS ARE NOT ONLY CRUCIAL, BUT ALSO MUCH MORE **COST-EFFECTIVE** THAN THE VIRTUAL **REVENUE LOSSES** THAT COULD OCCUR IN CASE OF INACTION.

OVER THE PAST 6 YEARS, THE EU FASHION INDUSTRY HAS ALREADY MANAGED TO DECOUPLE ECONOMIC GROWTH FROM CO_2 EMISSIONS

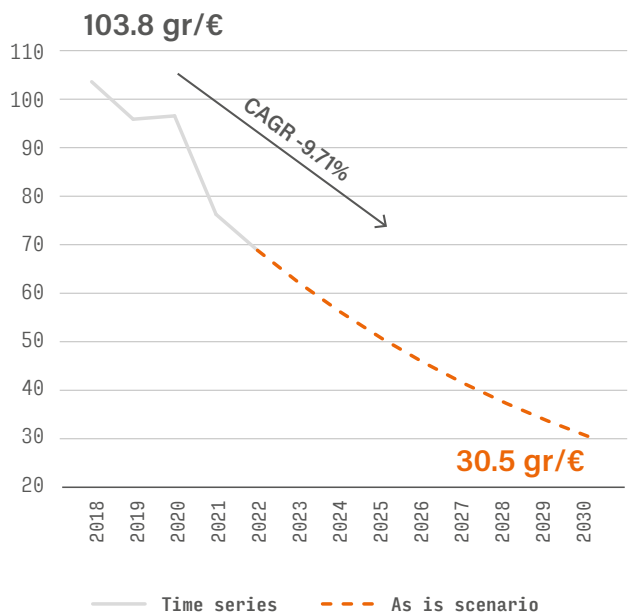
Over the last decade, the European Union's fashion industry has undergone a remarkable transformation, successfully managing to significantly lower its carbon footprint while simultaneously increasing its economic value[1]. Between 2018 and 2021, the industry achieved a reduction of 27.4 grams of CO_2 per Euro of economic output, while maintaining a recorded compound annual growth rate of 2.95%.

Looking ahead to 2030, projections indicate a further decrease in CO_2 emission intensity by approximately 73.4 grams compared to 2018, or by 122.6 grams compared to 2008, representing an impressive overall reduction of 70.7%. This reflects the European fashion industry's substantial progress in minimizing energy consumption and thereby emitting less CO_2, all while increasing added value across the industry.

Energy efficiency contributed to reducing GHG emissions by 27%. In this regard, the policies enforced by the EU have had a key impact on these results. Specifically, the implementation of certain policies such as Directive 2010/75/EU and Directive 2012/27/EU aimed at reducing GHG emissions and improving energy efficiency, respectively – should be noted[2].

These trends underline not only the industry's increasing operational efficiency but also a gradual rise in prices, signaling a balanced path towards toward sustainability and economic growth. The industry ability to innovate and adapt to both environmental and market demands outlines its evolving role in aligning economic growth with environmental responsibility, positioning it for continued leadership in sustainable fashion practices.

Evolution of the CO_2 emission intensity in the EU fashion industry (grams/€)[1]



(1) TEHA elaboration of Eurostat (retrieved on 06/06/24). Air emissions accounts record emissions arising from the activities of all resident units (=economic activities), regardless of where these emissions actually occur geographically. Air emissions accounts have the same system boundaries as ESA and are also based on the residence principle. Air emissions arising from land use, land use changes and forestry as well as any indirect emissions are excluded. (2) R. R. Collado et al., Key drivers of the textile and clothing industry decarbonisation within the EU-27 (2023).

YET, AT CURRENT RATES, THE EUROPEAN FASHION SECTOR WILL MEET ITS 2030 DECARBONIZATION TARGETS 8 YEARS BEHIND SCHEDULE

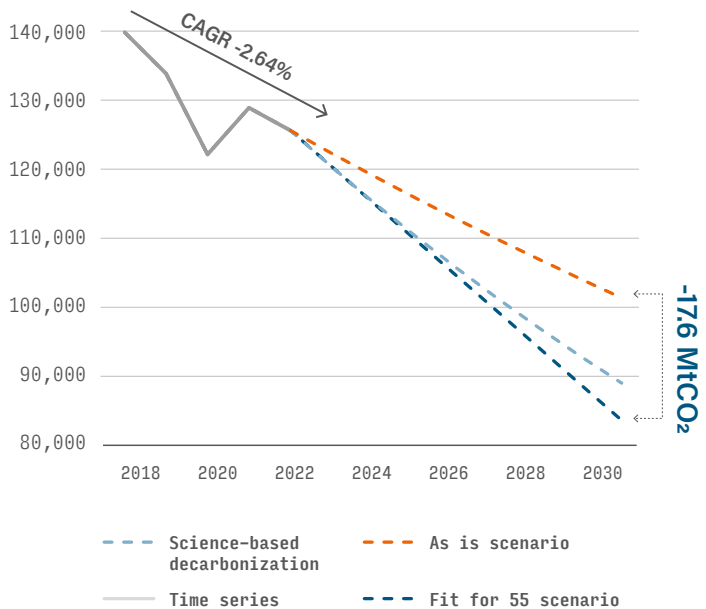
According to trends recorded over the past 33 years, 3 distinct decarbonization pathways have been projected for the EU fashion industry, each assuming a reduction in its footprint:

- at the constant and proportional rate registered over the past 5 years (as is scenario);
- at rates envisioned by the industry guidelines proposed by the SBTi (science-based decarbonization);
- by -55% compared to 1990, as required by the EU Fit for 55 compound target (Fit for 55 scenario).

Data indicate that the sector has already embarked on a sustained decarbonization path, achieving a 33% reduction in its footprint from 1990 levels by 2022. However, to meet European targets, further efforts are required with an estimated additional reduction of the overall carbon emissions by 76.1 million tonnes of CO_2 by 2030. These scenarios highlight how at the current rate, European fashion industry mid-term decarbonization targets may be reached with 8 years delay – only in 2038.

In this context, several challenges facing the EU-27 fashion industry should be highlighted. First, the transition to renewable energy needs to progress, as it is essential for achieving a carbon-neutral industry. Second, policies promoting energy efficiency within the textiles and clothing sector should continue to be implemented, as they have been so far. Third, new policies should be developed to enhance the value added generated by the textiles and clothing industry in Europe, aiming to solidify its status as a strategic sector. Finally, the effectiveness of national policies in reducing emissions per unit produced varies significantly among countries, emphasizing the need for a well-designed mix of environmental and energy policies to lower greenhouse gas emissions and boost energy efficiency[3].

Compound EU fashion industry emissions and decarbonization scenarios compared ($ktCO_2$)[1,2]



(1) TEHA elaboration of European Environment Agency: EEA greenhouse gases - data viewer from 2018 to 2022 (retrieved on 06/06/24); (2) TEHA elaboration of Science Based Target: Apparel and Footwear sector – SBT guidance (retrieved on 06/06/24) (3) R. R. Collado et al., Key drivers of the textile and clothing industry decarbonisation within the EU-27 (2023).

AT LEAST €24.7 BILLION OF ADDITIONAL INVESTMENTS WILL BE NEEDED BY 2030 TO REACH THE TARGETS ON TIME

To assess the investment needed for advancing decarbonization, the total cost of implementing basic, standard and widely scalable solutions – such as energy efficiency and green energy supply – was calculated. These solutions were selected for their capacity to provide the necessary emission abatement. Please note that the calculation does not include costs related to carbon offset initiatives.

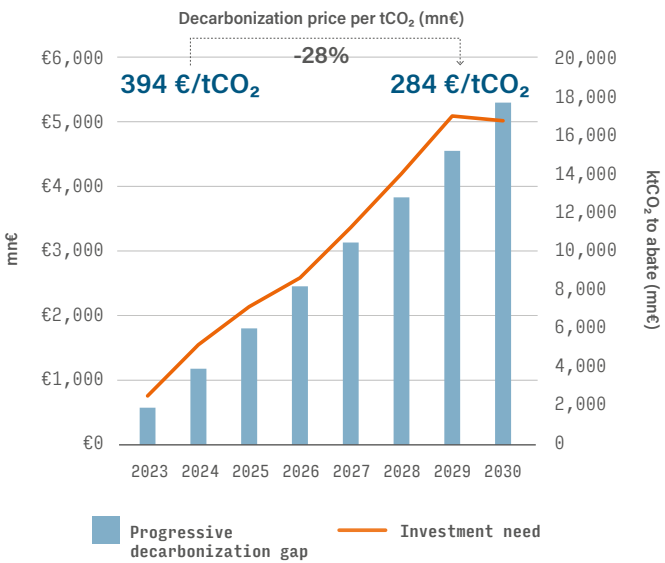
Although these estimates are conservative, since the abatement potential of the solutions considered is not sufficient on its own to ensure that the European targets are met, it is possible to quantify the investment gap required by 2030, ranging between €24.7 and €29.1 billion[1].

With an estimated depreciation rate of -20% at doubling capacity, the cost of carbon abatement investment could fall by around -28% over the next 7 years, dropping from the current €394 per tCO_2 to €284 per tCO_2[1,2].

Yet, between 2018 and 2021, overall investments in the EU fashion industry registered a downward trend and, in 2020, the European Investment Bank reported that around 45% of EU firms planned to cut or delay their future investments plans[3]. This lack of investment not only hampers the ability of companies to innovate and remain competitive, but also outlines a more precarious future and limits their ability to catch up in areas such as digitization or to address challenges as climate change[3].

Moreover, during the last 4 years available, data show that investments in both the textile and clothing manufacturing enterprises amounted to €18,115 billions and have declined by 7.93% overall[3,4]. In the same timeframe, the investment intensity with respect to the industry turnover experienced a degrowth as well, dropping by almost 12.5%. This trend goes hand in hand with that registered among patents over the past 6 years: more than 2,400 patent applications were submitted for the fashion industry, with an absolute number of application gradually declining by 3.39% between 2018 and 2023[5].

Decarbonization gap ($ktCO_2$) and investment need (mn €)[1,2]



(1) TEHA elaboration of European Environment Agency: EEA greenhouse gases - data viewer from 2018 to 2022 (retrieved on 06/06/24); (2) TEHA elaboration on McKinsey, Fashion on Climate (2020) and various sources (2024); (3) TEHA elaboration on European Investment Bank: Corporate investment was growing in Europe – then COVID-19 hit (2021): (2) TEHA elaboration on Eurostat: Annual detailed enterprise statistics for industry (retrieved on 14/06/2024) – Data do not include leather and related products manufacturing, ad they are not available. (4) TEHA elaboration on Eurostat: Population on 1 January (retrieved on 14/06/2024); (5) TEHA elaboration on European Patent Office: European Patent register (retrieved on 14/06/24) - Patent application for apparel, fashion, garment, leather and textile.

TO ACHIEVE THE EU LEGALLY-BINDING DECARBONIZATION PATH, ANNUAL REVENUE LOSSES MAY EXCEED REQUIRED INVESTMENT BY 8X IN 2030

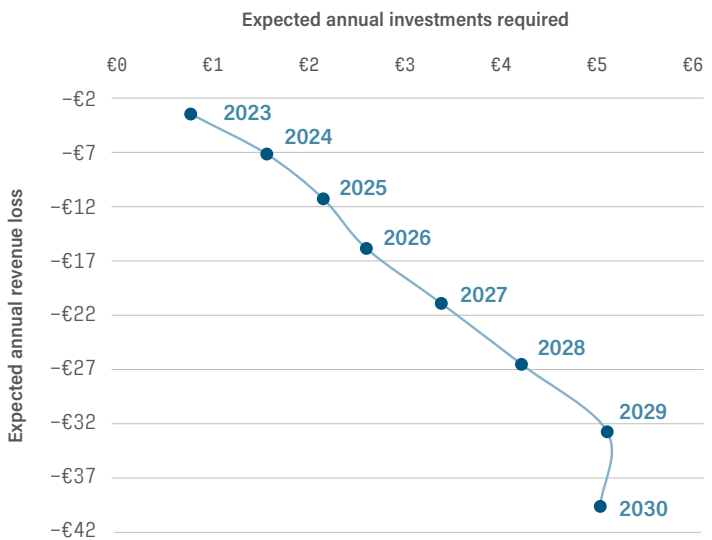
In the face of European decarbonization targets, and assuming the EU has the authority to enforce these within the private sector, companies may soon find themselves at a critical crossroad: give up a share of sales, adjusting production volumes to a predetermined carbon budget following a logic similar to that of the Emission Trading Scheme, or invest in necessary interventions to reduce the carbon footprint of production processes. A comparison of the potential impacts of both alternatives indicates that expected losses by 2030 (~ €156.7 bn) far exceed projected investments (~ €24.7 bn).

In a Fit for 55 scenario, revenue losses could go from being 4.4 times the required investment in 2022 to surpassing it by more than 7.8 times in 2030.

Based on conservative estimates made to quantify additional investment needs, it is possible to cautiously estimate that each EU company should annually invest at the very minimum ~ €28,000 to meet 2030 environmental goals.

This figure is seemingly easy to internalize, but it is likely to have a significant impact on the financial stability of small and micro enterprises in particular - especially if one considers that it is an average value, which does not take into account the actual volume of emissions produced by each organization and could therefore be much higher for companies performing the most emissive processes along the value chain (e.g. dyeing).

Investments required to decarbonize the EU fashion industry in a Fit for 55 scenario vs. expected revenue loss (bn € / year)[1]



(1) TEHA elaboration on various sources (2024) and on Eurostat: Annual detailed enterprise statistics for industry from 2018 to 2022 (retrieved on 06/06/24).

IF THE INDUSTRY CHOOSES NOT TO PURSUE THE INVESTMENT PATHWAY, EACH EUROPEAN WILL HAVE TO GIVE UP 21 ITEMS OF CLOTHING IN 2030

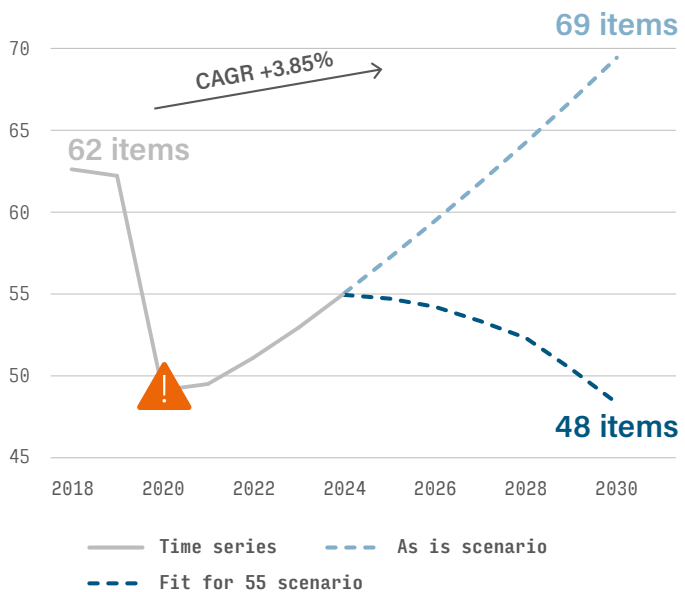
By confronting consumption volumes, consumer spending and average unit prices, at current rates, Europeans are projected to increase per capita clothing and footwear apparent consumption by 31% by 2030, reaching over 69 items bought each year per capita.

Yet, according to the Fit for 55 trajectory, such consumption rate seems incompatible with the 2030 decarbonization target: in an extreme scenario where companies cannot sustain the necessary investments to decarbonize, it will be up to European consumers to reduce their purchases, giving up around 1 out of 3 items they buy each year.

This means that the annual rate of purchase of new products per capita is expected to gradually decrease to 48 items per capita – about 14 less than current levels and 21 less than expected if the market grows.

While it is true that such an avoidance of consumption would contribute to an overall reduction of fashion's footprint on ecosystems – water consumption and land use would, in fact, decrease respectively by 210.110 ML and 9.339,2 km² by 2030[2] – it is also true that this trend would correspond to a significant market contraction, resulting in economic losses for all companies in the sector.

EU fashion consumption and decarbonization scenarios compared (n° of items consumed per capita)[1]



In order to net the COVID-related consumption slowdown, the as is CAGR has been calculated on 2015-2019 data

(1) TEHA elaboration on Statista, IMF, World Bank, UN and Eurostat (2024).

NARROW MARGINS ALONG THE ITALIAN SUPPLY CHAIN MAKE INVESTMENTS IN DECARBONISATION HARDLY AFFORDABLE FOR ~92% OF THE COMPANIES

While the largest EU brands maintain relative strong margins, with an average EBITDA of 24% and peaks of up to 33% in the luxury segment, around 80% of companies in the Italian supply chain struggle to exceed a 10% margin threshold.

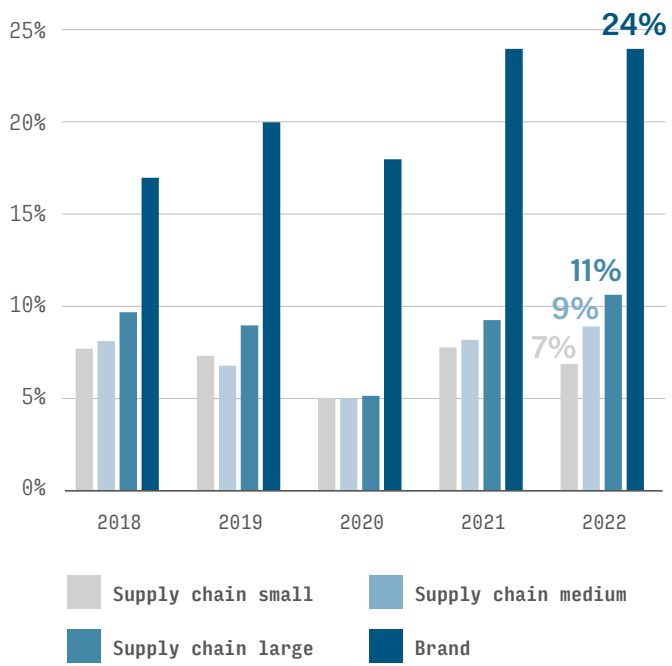
Following the Fit for 55 scenario estimations, additional decarbonisation investments will account on average for 0.8% of the Italian supply chain's EBITDA.

Small companies, making up to 55% of the over 2,680 companies in sample analyzed, are expected to face the toughest challenge. Over the past 5 years, it is the only segment where margins have plummeted (-11%), and it is estimated that the required investments will affect annual margins by about 5.8% – especially in tannery (8.2%), apparel manufacturing (6.5%) and footwear (6.1%).

At the same time, among EU brands, while overall margins have increased by 38% in the last five years, a slowdown took place between 2021 and 2022, especially among Mass Market (-24%) and E- Commerce (-60%) players.

In this scenario, the leather industry may represent a focus area: despite Italy being the leading European country in leather goods production, with approximately 4,850 companies, an analysis of sector profitability in 2023 reveals a contrasting picture. France emerges with the highest profitability at 21%, followed by Italy at 13%, and Spain at 9%. This discrepancy between Italy's dominance in terms of company numbers and France's superior profitability highlights variations in market dynamics and operational efficiencies across these major European players in the leather goods sector[1].

EBITDA-turnover ratio among the value chain (2,686 Italian supply chain companies vs. 281 EU brands, by segment)*



*Sample: 2,686 Italian fashion supply chain companies (55% small, 36% medium, 8% large; 34% textile, 28% manufacturing, 19% footwear, 12% tannery and 8% leather goods) and 281 largest European brands, analyzed by segment and turnover.

(1) TEHA elaboration on Bureau Van Dijk AIDA and Orbis (2024).

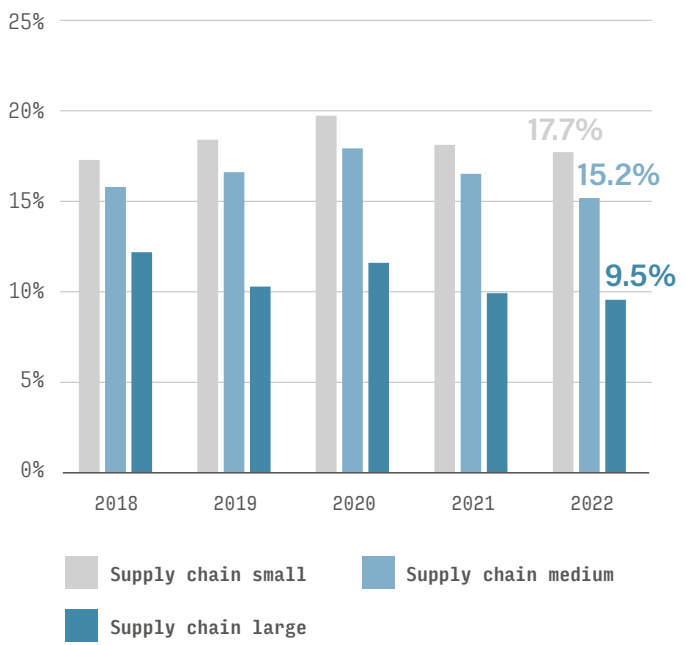
THE INABILITY TO QUIT CAPORALISATION MAY BE LINKED WITH RISING LABOR COSTS, ACCOUNTING FOR APPROXIMATELY 10.9% OF TOTAL EXPENSES

Although Italy's manufacturing sector has one of the lowest productivity rates among OECD countries, it remains the most productive segment within the national economy, surpassing agriculture and services. However, over the past two decades, productivity in the sector has stagnated, with no notable growth. This stall has gradually eroded profitability, leading to a 4.9% decline in margins between 2018 and 2021[1].

According to the Italian National Institute of Statistics (ISTAT), employee costs account for an average of 14-15% of company turnover in the sector[2]. As of 2022, the Italian fashion manufacturing sector reports a labor-turnover ratio of 10.9%, with variations across different segments and company sizes. On average, employees' net salary is €20,316, reflecting a 7.3% increase compared to 2018[3].

Small companies in the leather goods (27.5%), footwear (19.5%) and textile (18.2%) segment have experienced higher labour costs ratio on turnover, reflecting the labor-intensive nature of these industries. The craftmanship and expertise of artisans and specialized workers are crucial in upholding the high-quality standards associated with "Made in Italy" products. Moreover, these business often operate with limited economies of scale[3].

Average labour costs on turnover among the value chain (2,686 Italian supply chain companies by segment)[3]



(1) TEHA elaboration on TEHA, Rilanciare la produttività: quale politica industriale per l'Italia e per l'Europa? (2024) and OECD, Productivity profile of Italy (2024); (2) TEHA elaboration on ISTAT (2024); (3) TEHA elaboration on Bureau van Djik AIDA.

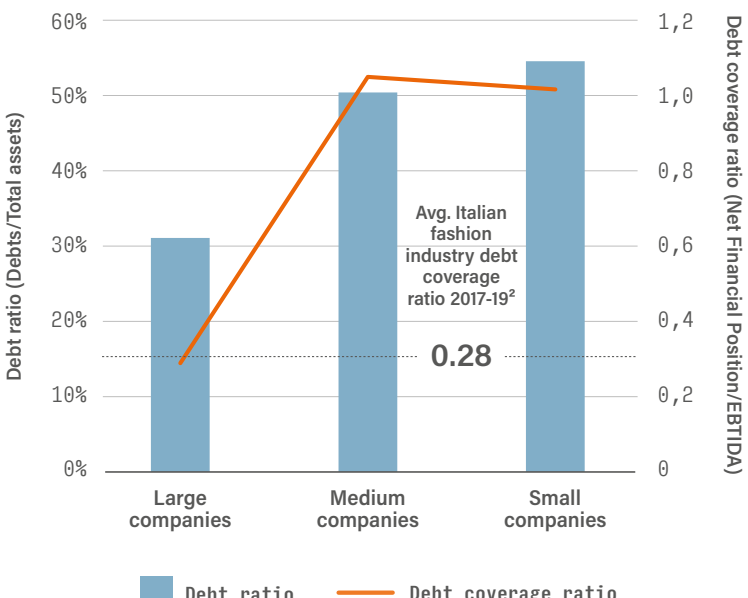
ITALIAN SUPPLY CHAIN SMEs ARE ALMOST TWICE AS INDEBTED AS LARGE ONES AND WILL BE ABLE TO REPAY THEIR DEBTS THREE TIMES SLOWER

An analysis of the total assets, net financial position and debts within the Italian supply chain reveals that, on average in 2022, 1 out of 3 of companies' investments were financed through external sources[1]. The data further indicate that the indebtedness rate increases as the company size decreases, with smaller companies relying on external financing for over 54% of their investments, compared to 31% for large companies.

The debt coverage rate – calculated as the ratio between Net Financial Position and EBITDA – also provides interesting evidence: nowadays, SMEs in the Italian fashion supply chain need 3 times as long as large companies to repay their debts (about 1 year vs. 4 months), with an average value of around 6.5 months – which almost doubled in the last 4 years[2].

The tannery sector warrants special attention, as both small and medium-sized companies within the industry register a significantly above-average ratio, 34 and 20 months respectively.

Debt ratio and debt coverage ratio among the value chain (2,686 Italian supply chain companies by segment)*



*Sample: 2,686 Italian fashion supply chain companies (55% small, 36% medium, 8% large; 34% textile, 28% manufacturing, 19% footwear, 12% tannery and 8% leather goods).

(1) TEHA elaboration on Bureau Van Dijk AIDA (2024); (2) EY, Settore moda e Covid 19 (2020).

2.

OVERSIGHT EVOLUTION

HOW IS THE EXTENDED FASHION VALUE CHAIN EQUIPPING ITSELF TO MANAGE LONG-TERM TRENDS LINKED TO THE JUST FASHION TRANSITION PATH? WILL ITS PERFORMANCES AND COMMITMENTS BE SUFFICIENT TO ACHIEVE THE EXPECTED RESULTS BY 2030?

2.1

OVERSIGHT EVOLUTION

POLICIES, END-OF-LIFE AND FINANCIAL SECTOR

KEY MESSAGE
2.1.1

POLICIES

AS THE EUROPEAN UNION'S GLOBAL INFLUENCE HAS WANING IN THE LAST YEARS, IT STILL SEEKS TO PROMOTE SUSTAINABILITY WORLDWIDE MAINLY THROUGH **INTERNAL INTENSE REGULATION.**

THE **DELAY IN IMPLEMENTATION GUIDELINES** LEAVE EUROPEAN BUSINESSES UNCERTAIN ABOUT WHAT TO EXPECT.

SHIFTING POWER DYNAMICS IN THE INTERNATIONAL ARENA HAMPER EU EFFORTS TO INFLUENCE THE GLOBAL ESG AGENDA

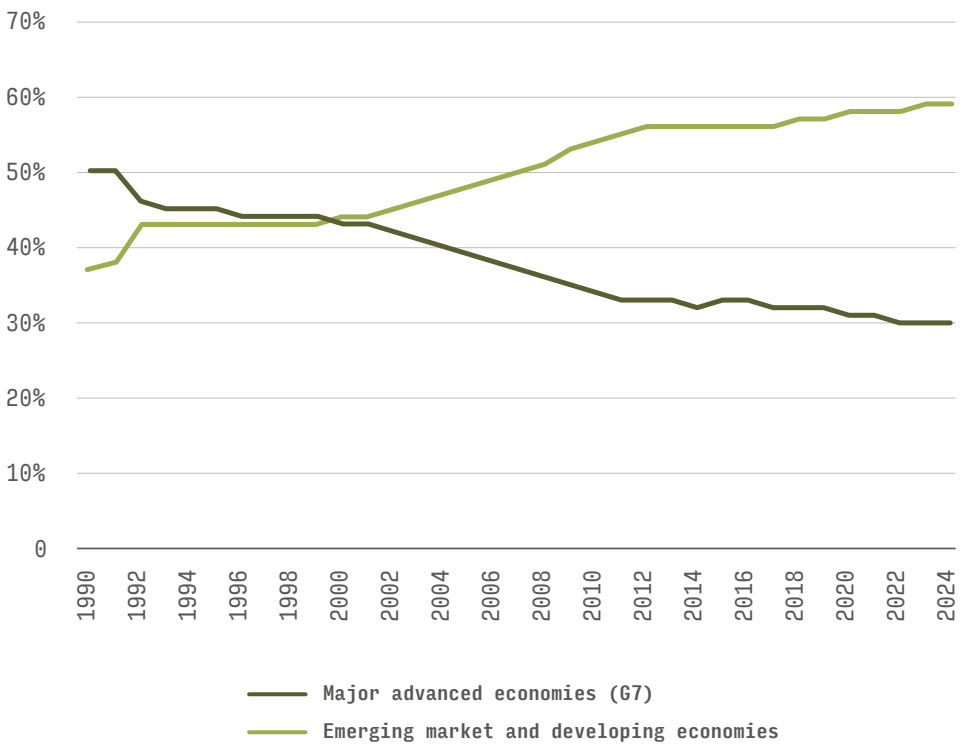
Since 1990, the balance of the world's major economies has shifted dramatically. The G7's share of global GDP fell from 50% in the early 1990s to around 30% by 2010. This has led to the rise of the G20 economies which, after the Great Recession, have gained increasing relevance in worldwide economic equilibrium. Led by China, they have contributed to a widening of decisions and negotiations, bringing several emerging countries to the forefront of global debate.

In this context, the United States continues to lead in GDP growth compared to the EU. This gap is primarily driven by strategic investments in new technologies, which have granted the United States stable growth in productivity rates[1].

In 2020, Europe pledged to lead the global ESG transition by adopting the Green Deal, the first comprehensive strategy to achieve climate neutrality by 2050[2]. Through this ambitious program and a strong regulation that has the ambition to influence the world market, the EU have been committed to finance a shift towards sustainable economic models.

However, the Union has faced challenges in influencing global sustainability practices and has struggled to reach its sustainability objectives due to its limited ability to create pressure in an international scenario where its voice is becoming increasingly weaker[3].

Gross domestic product based on purchasing-power-parity (PPP) share of world total[4]



(1) Polytechnique insights, Economics: why Europe is falling behind the USA (2024); (2) European Union, The European Green Deal (2020); (3) ISPI, Le sfide del G7 in sette grafici (2024); (4) TEHA elaboration on IMF (2024). The European Union (EU) is excluded being a "non-enumerated member".

THE US EMPHASIZES ECONOMIC INCENTIVES, THE EU ON STRICT REGULATIONS, CHINA ON STRONG STATE CONTROL, WHILE JAPAN TAKES A MILDER APPROACH[1]

REGION	APPROACH	KEY INITIATIVES	TARGET FOCUS	MAIN INVESTMENT
	**Predominance of economic incentives with fewer stringent regulations**	Inflation Reduction Act (IRA), Bipartisan Infrastructure Law, CHIPS and Science Act, Clean Power Plan	Incentives for the private sector and technological innovation, infrastructure modernization, semiconductor manufacturing, clean energy transition	IRA: $780 billion (2022-2031) Bipartisan Infrastructure Law and CHIPS and Science Act: $600 billion in 5-10 years (starting from 2022) Total investments (including private): $2.400 billion
	**Balance between incentives and regulations, with emphasis on technological innovation**	Green Growth Strategy Through Achieving Carbon Neutrality in 2050, Eco Mark Program	Incentives and regulations with emphasis on technological innovation and public-private collaboration	Green Growth Strategy Through Achieving Carbon Neutrality in 2050: $100 billion in 30 years (2020-2050)
	**Strong regulation with complementary incentives**	European Green Deal (excluding funding from individual States)	Regulations and incentives focused on carbon neutrality, renewable energy, energy efficiency, emissions reduction, and sustainable agriculture and transport	Green Deal: €1.000 billion in 10 years (2020-2030)
	**Mix of centralized regulation and incentives, with absolute state control**	14th Five-Year Plan, Total Emission Control Policy	Regulation and incentives for the public and private sectors, with strong state control	14th Five-Year Plan: $400 billion in 5 years (2021-2025)

(1) TEHA Elaboration on ISPI, UE: il treno green non è frugale (2024); Atlantic Council, The IRA and CHIPS Act are supercharging US manufacturing construction (2024); European Union, The European Green Deal (2020); Ministry of Economy, Trade and Industry, Green Growth Strategy Through Achieving Carbon Neutrality in 2050 (2020); PRC, 14th Five-Year Plan (2020).

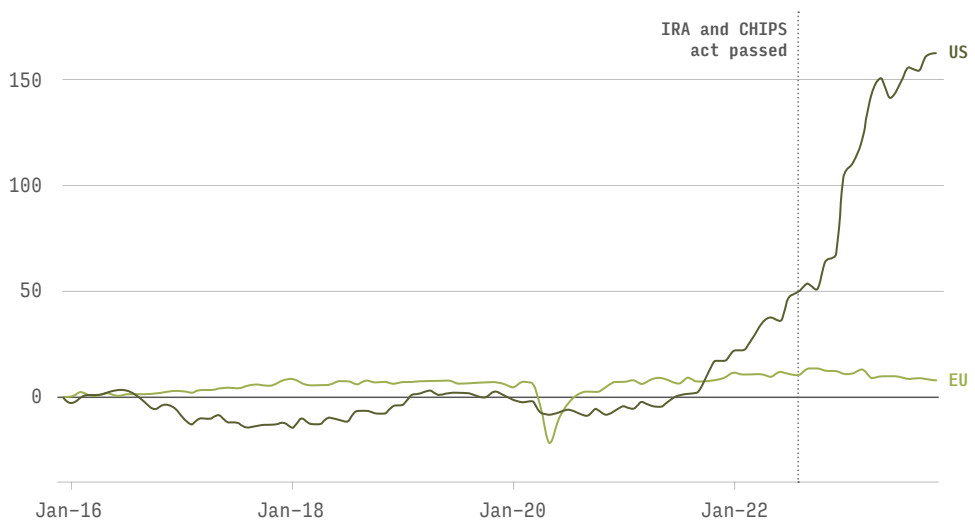
EU HAS PUSHED THE TRANSITION WITH REGULATION, BUT IF IT DOES NOT INVEST IT RISKS LOSING GROUND ON GREEN COMPETITIVENESS IN FAVOR OF THE US AND CHINA

Without adequate investments, the transition in Europe is at risk of becoming a cost that will eventually compel companies and consumers to purchase goods and technologies from the US and China. This would contravene the very objective of the Green Deal: to lead European competitiveness and growth through sustainability. As global markets become more competitive, the lack of strategic investment could result in Europe falling behind in green innovation and technology.

In the United States, the Inflation Reduction Act (IRA) proposes $780 billion in public investments, supplemented by $600 billion allocated through the CHIPS Act and the Infrastructure Bill. These considerable efforts mark an acceleration in American public investment towards its manufacturing sector. These investments are designed to strengthen the US's competitive advantage in green manufacturing and technology.

Public effort has been backed by private investment as well: estimated at around $1 trillion, it would bring the total to approximately $2.4 trillion. In 2022 already, thanks to the Chips Act, over $250 billion has been invested in the sector[1,2]. This coordinated public-private approach could place the US at the forefront of green manufacturing, leaving the EU vulnerable if it fails to follow suit.

Total expenditure on construction in the manufacturing sector US vs EU (percentage change)[2]



(1) ISPI, UE: il treno green non è frugale (2024); (2) Atlantic Council, The IRA and CHIPS Act are supercharging US manufacturing construction (2024).

IN EUROPE, THE UNION MAINTAINS ITS GRIP ON THE REGULATION AFFECTING FASHION SECTOR, BUT FULL IMPLEMENTATION IS NOT EXPECTED FOR ANOTHER 5 YEARS

PRODUCT

ECO DESIGN
Improve circularity and other environmental aspects of fashion products

EU ECOLABEL
Revise the criteria for identifying environmentally friendly textile and footwear

WASTE FRAMEWORK
Introduce mandatory Extended Producer Responsibility schemes

REACH
Improve the protection of health and the environment against chemicals

MICROPLASTICS
Address the volume of microplastics by tackling the main sources of releases

TEXTILE LABELLING
Introduce specifications for physical and digital labelling of textiles

WASTE SHIPMENT
Sets out stricter rules on the export of waste to non-EU countries

GOVERNANCE & REPORTING

CSRD
Improve sustainability-related information by standardizing reporting

DEFORESTATION
Ensure that leather sold in EU does not contribute to deforestation

CS3D
Promote sustainable corporate conduct along value chains

FORCED LABOUR
Prohibit products made using forced labour in the EU market

ENFORCEMENT

MARKET SURVEILLANCE
Enforce product compliance internally and at EU borders

NEW CUSTOMS FRAMEWORK
Reform of EU Customs system to respond to new challenges

CONSUMERS

EMPOWERING
Provide consumers with better information on products performances

GREEN CLAIMS
Require companies to substantiate their green claims in B2C practices

RIGHT TO REPAIR[2]
Oblige manufacturers to extend products lifecycle through repair

LEGEND: Implemented | Partially Implemented | Proposed

(1) TEHA elaboration on the European Union (2024); (2) The proposed legislation does not directly affect TCLF (textiles, apparel, leather, and footwear) products in its current form, but could be expanded in future revisions, given the new repair requirements arising from the Ecodesign Regulation.

WITHOUT ADEQUATE SUPPORT FOR SMALL AND MICRO ENTERPRISES, EU COMPLIANCE POLICIES RISK EXACERBATING INEQUALITIES

In the EU, 98% of the companies active in the clothing ecosystem are small and micro enterprises (9% and 89% of the total, respectively). Indeed, the core of the European textile industry still consists of numerous small, family-owned enterprises with decade-long experience, and startups investing in sustainability and innovative technologies[2].

Though most of the European Union's sustainability compliance requirements are aimed at large and medium-sized companies, there is considerable risk that the burden of compliance will shift to small and micro companies, without recognizing the additional costs this brings[3].

This imbalance could exacerbate inequalities, particularly for businesses with limited resources, making it more difficult for them to compete in a highly regulated market.

Key requirements and impact of legislation in force that will affect small and micro enterprises[1]

IMPACT[1]	LEGISLATION	KEY REQUIREMENTS
	**CS3D** Corporate Sustainability Due Diligence Directive	▪ Review own impact mapping tools ▪ Activate partnerships with industry associations/alliances ▪ Establish mechanisms to raise concerns to business partners
	**ESPR** Ecodesign for Sustainable Products Regulation	▪ Put on the market or into service only products compliant with Ecodesign requirements ▪ Provide product information to be included in the Digital Product Passport ▪ Disclose information on unsold consumer products
	**CSRD** Corporate Sustainability Reporting Directive	▪ Provide sustainability information to medium and large business partners and credit institutions ▪ Monitor value chain impacts, if required
	**Deforestation**	▪ Collect a record of the due diligence statements of their suppliers and customers ▪ Inform the authorities in case of concerns about products compliance
	**Export of Waste**	▪ Obtain authorization for shipments intended for disposal
	**Forced Labour**	▪ Do not place on the Union market or export from the Union market products made with forced labour

(1) TEHA elaboration on the European Union (2024). The extent of the impact has been established in terms of actions to be implemented and economic resources to be spent; (2) Euratex, Facts & Key Figures (2024); (3) European Parliament, The cumulative effect of due diligence EU legislation on SMEs (2023).

INCREASED SCRUTINY OF GREEN CLAIMS AND UNCERTAINTY OF ESG LEGISLATION ON PRODUCTS RAISE FEARS OF SO-CALLED "GREENHUSHING"

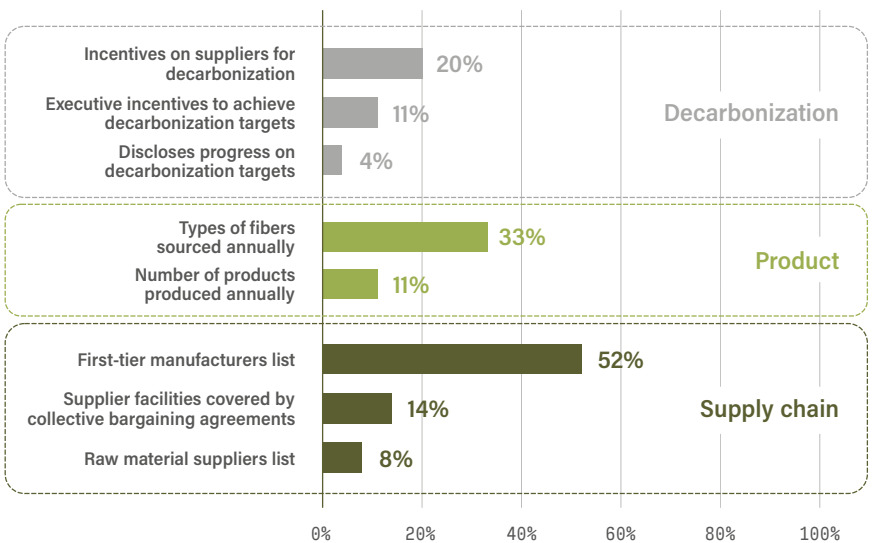
As the EU moves towards finalizing a law that will require companies to substantiate sustainability claims (with fines worth at least 4% of annual revenue)[2], there is also increasing global scrutiny of greenwashing regulations, marking a widespread tightening of corporate sustainability legislation. This regulatory landscape is forcing companies to be more cautious in their sustainability communications.

However, in Europe, the rise in regulatory activity on green claims is not matched by sufficient legal clarity regarding ESG requirements for fashion products. Currently, 94% of the related legislation is still pending, awaiting implementation and the necessary delegated acts[3].

In this context of increased scrutiny and uncertainty, brands are becoming more hesitant to disclose environmental information about their products, fearing the risk of violating product legislation. This reluctance may give rise to the so-called "greenhushing" phenomenon, where brands stay silent about their sustainability efforts due to concerns over both reputational damage and potential legal consequences.

Interestingly, the areas that receive the least attention in terms of disclosure are raw materials, progress on decarbonization, and the number of products. The level of transparency in these areas remains extremely low, even though they are crucial topics where larger brands are showing more commitment.

Share of brands that disclose indicators in some sustainability dimensions (%)[1]



(1) Fashion Revolution, "What Fuels Fashion" (2024) – data based on 250 global largest fashion brands; (2) EU, Proposal for a Directive on substantiation and communication of explicit environmental claims (2023); (3) TEHA elaboration on recent European Union legislation affecting fashion products: ESPR, Microplastics, EU Ecolabel, Textile Labelling, Waste Framework, Waste Shipment, REACH Revision.

DESPITE ITS GLOBAL GROWTH, FAST FASHION IS LIKELY TO FACE CHALLENGES DUE TO INCREASING TARGETED LEGISLATION

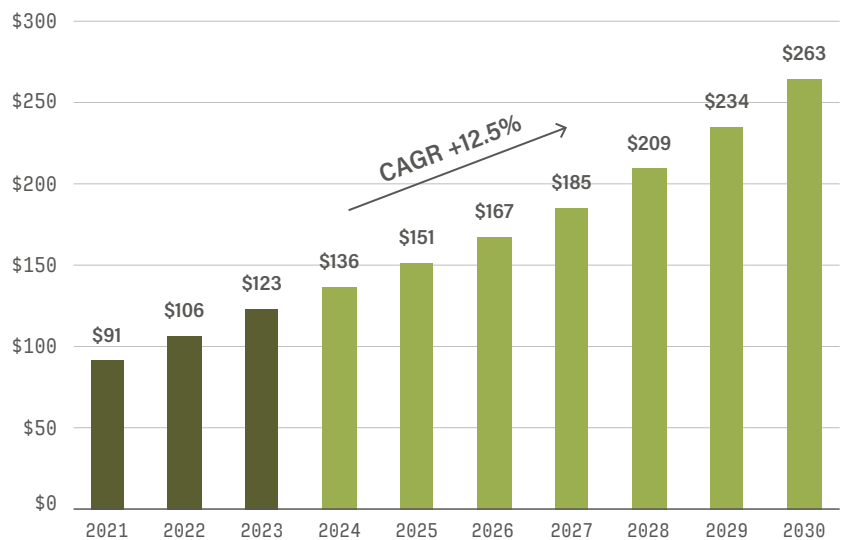
The fast fashion market is expected to grow significantly, with its global value projected to reach around $185 billion by 2027[1].

In response, several countries are proposing laws to limit the spread of international e-commerce fast fashion giants.

In France, a legislative proposal seeks to introduce an environmental levy of up to €5 per fast fashion item, increasing to €10 by 2030. This bill would also prohibit the marketing of such products, possibly steering consumers towards more sustainable, locally-sourced options[2].

The EU[3] and US are considering removing the exemption threshold[4], that allowed to avoid taxation for certain amounts of imported goods, while South Africa has implemented for importers of low-value parcels to pay value-added tax (VAT)[5].

Fast fashion market value forecast worldwide from 2021 to 2027 (bn US $)[1]



(1) Statista (2024); (2) Fast-fashion loi, 2024; (3) Financial Times, EU takes aim at China's Temu and Shein with proposed import duty (2024); (4) The White House, Biden Harris Administration Announces New Actions to Protect American Consumers, Workers, and Businesses by Cracking Down on De Minimis Shipments with Unsafe, Unfairly Traded Products (2024); (5) Reuters, South Africa to impose VAT on low-value parcels to help clothing industry compete (2024).

KEY MESSAGE
2.1.2

END-OF-LIFE

WHILE THE EUROPEAN UNION IS PLACING INCREASING **EMPHASIS ON END-OF-LIFE MANAGEMENT** OF TEXTILE AND APPAREL PRODUCTS, BOTH EUROPEAN AND ITALIAN **INFRASTRUCTURE SYSTEMS ARE BEHIND SCHEDULE.**

EVERY YEAR IN EUROPE AN ESTIMATED 4–9% OF TEXTILES ARE DESTROYED BEFORE USE, LEADING TO EUROPEAN STRINGENT MEASURES

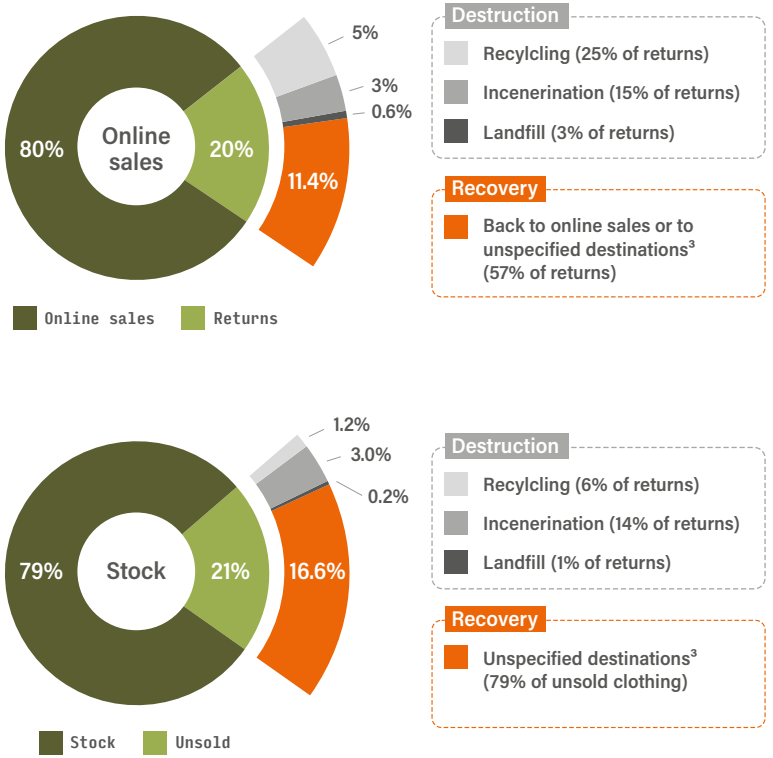
Destruction is still a widespread option for the disposal of returned and unsold textile products in the EU. The amount of destroyed textiles was estimated to range between 264 thousands to 594 thousands tonnes in 2020, making up 4-9% of the total textile products in the market[1].

Whereas unsold stocks are recovered approximately 4 out of 5 times (79%), the trend is far less encouraging in the case of online sales returns, with the share dropping to just over half of total returns (57%)[1].

The processing of each online return imposes significant costs on retailers, about 55% to 75% of the product retail price, largely due to the labor-intensive steps required to regenerate returned textiles and market them for a second time. Returned items may be used, damaged, or out of season, which reduces their chances of being resold at full price[1].

The new Ecodesign Regulation establishes a general obligation for economic operators to publicly report the amount of their unsold discarded consumer products – except for cases in which products are discarded to prepare them for reusage. It also includes a direct ban for large and medium-sized companies to destroy unsold textiles[2], obliging them to engage in recovery activities.

Proportion of textile products destroyed EU (%)[1]



(1) EEA, The destruction of returned and unsold textiles in Europe's circular economy (2024); (2) Ecodesign for Sustainable Products Regulation (EU) 2024/1781; (3) Unspecified destinations refer to outside outlets, jobbers, donations.

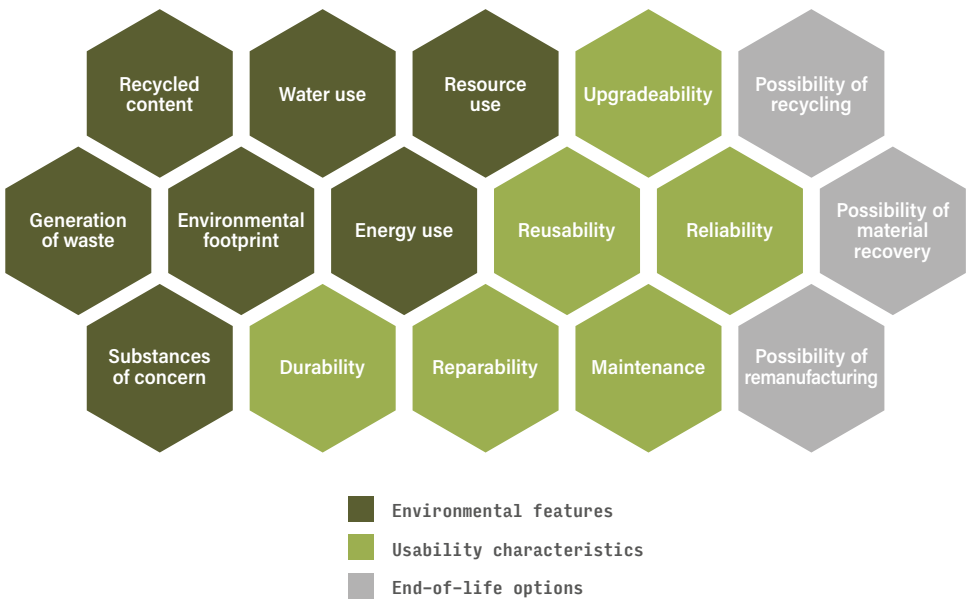
WITH EXTENDED PRODUCER RESPONSIBILITY, THE EU AIMS TO ESTABLISH A CIRCULAR ECONOMY FOR TEXTILES, AND ECODESIGN WILL PLAY A KEY ROLE

In 2023, the European Commission proposed a revision of the Waste Framework Directive that will provide for harmonized extended producer responsibility (EPR) schemes. In this setting, fashion brands and textile manufacturers will be required to pay fees to help finance the costs of collecting and treating textile waste.

Additionally, EPR fees will vary according to the Ecodesign of products, as defined by ESPR (Ecodesign for Sustainable Products Regulation) requirements[1]. Products that last longer, that showcase a high content of recycled materials and that are easily recyclable themselves will entail lower fees. This is in line with the concept of eco-modulation, according to which the usage of materials that contribute to circular economy practices should be rewarded and, conversely, the use of non-recyclable/ reusable materials should be penalized.

The modulation of fees according to the Ecodesign criteria should be based on the Ecodesign requirements and the relevant measurement methodologies that are adopted in compliance to the ESPR for textile products. This will in turn require traceability via Digital Product Passport[2], boosting transparency across the textile value chain.

Key Ecodesign aspects under ESPR that will form the basis for setting EPR fees[3]



(1) Proposal for a Directive amending Directive 2008/98/EC on waste; (2) Regulation (EU) 2024/1781 establishing a framework for the setting of Ecodesign requirements for sustainable products (ESPR); (3) TEHA elaboration on the European Commission (2024).

IN FRANCE, EPR IS INTRODUCING DIFFERENTIATED FEES FOR MARKETERS BASED ON ENVIRONMENTAL CRITERIA

France was a forerunner in the introduction of transparency across the consumer products value chain. Since 2007, it has established the Extended Producer Responsibility (EPR) system for textiles products, a piece of legislation which mandates companies to pay fees based on the amount and type of textiles they place on the market.

In France, an eco-organization responsible for managing the EPR scheme for textiles was established as well: Refashion. With the goal of facilitating the introduction of circular economy and transparency practices, Refashion collects contributions from producers and allocates funding to recycling and waste management initiatives[1].

Every year, the eco-organization determines its financing needs, and its board of directors, after a budget analysis, sets the contribution to be called for the following year.

In 2023, the organization successfully gathered more than 204 thousand tons of textiles, equating to a collection rate of 39%, showing a steady improvement compared with previous years. It has been allocated €942,000 to local authorities to bolster public awareness and communication regarding textile waste[2], in an effort to build consciousness among consumers about the impact of the textile industry.

Amount of eco-modulation bonuses per item of textile according to French EPR system (2024)[1]

DURABILITY		
	<100,000 ITEMS	>100,000 ITEMS
Tops	€ 0.70	€ 0.07
Bottoms	€ 0.70	€ 0.07
Intimate products	€ 1.05	€ 0.105
Footwear	€ 0.70	€ 0.07
ENVIRONMENTAL CERTIFICATIONS		
	<100,000 ITEMS	>100,000 ITEMS
Clothing	€ 0.30	€ 0.03
Footwear	€ 0.30	€ 0.03
INCORPORATION OF RECYCLED RAW MATERIALS		
Bonus per tonne of recycled raw material	€500/tonne-€1,000/tonne	

(1) Refashion, 2024 Guide to eco-modulation (retrieved in 2024); (2) Refashion, 2023 Activity Report (retrieved in 2024).

BLOCKCHAIN APPEARS TO BE THE MOST TRUSTED TECHNOLOGY FOR THE DIGITAL PRODUCT PASSPORT, THOUGH CHALLENGES IN COST, SECURITY, AND SCALABILITY

The blockchain is a distributed digital ledger that securely records transactions across many computers, ensuring transparency and immutability. Its decentralized nature removes the need for intermediaries and is supposed to increase trust among participants. The most commonly consensus alternative mechanisms used to validate transactions on blockchain networks are:

- Proof of Work (PoW): PoW is the original consensus algorithm, introduced with Bitcoin. It involves solving complex cryptographic puzzles to validate transactions and create new blocks. While secure, PoW is known for its high energy consumption and slower transaction speeds.
- Proof of Stake (PoS): in PoS, introduced with Ethereum, validators are selected based on the number of coins they hold and are willing to "stake" as collateral. This shift from computational power to economic stake reduces energy consumption significantly and enhances scalability but presents a potential risk of centralization.

The UNECE-UN/CEFACT initiative, "Enhancing traceability and transparency of sustainable value chains in the garment and footwear sector" aims to leverage blockchain technology to create a Digital Product Passport (DPP), which could significantly enhance traceability and transparency[1]. However, implementing blockchain for this purpose comes with several challenges:

- Data Input - risk of manual errors during data entry.
- Energy consumption and decentralization – Proof of work blockchains, like Bitcoin, are energy-intensive compared to proof-of-stake blockchains, such as Ethereum, which may face issues with decentralization.
- Transaction Costs - these can be high, especially as the volume of transactions increases.
- Long-term Costs - managing and maintaining a vast amount of information can become costly over time.

The two blockchain models compared

	PROOF OF WORK (PoW)	PROOF OF STAKE (PoS)
ENERGY CONSUMPTION	High	Low
SECURITY	High (due to computational cost)	Moderate (depends on implementation)
SCALABILITY	Limited	High
CENTRALIZATION RISK	Low	Potentially High
TRANSACTION COSTS	High	Low
DATA IMMUTABILITY & RELIABILITY	High (Data cannot be changed, reliable)	Moderate (depends on validators)
TRANSPARENCY & COMPETITIVENESS SENSITIVITY	Can be challenging due to competitive sensitivity	Potentially better transparency, but still sensitive

(1) UNECE - Traceability for Sustainable Garment and Footwear (retrieved in 2024).

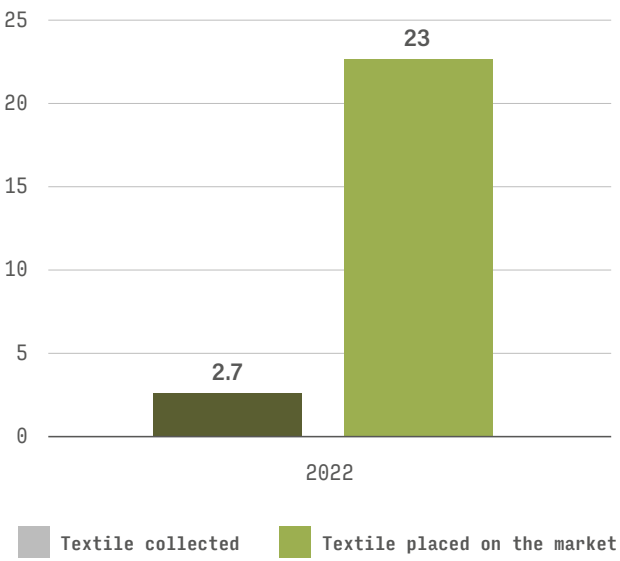
ALTHOUGH ITALY WAS THE FIRST EU COUNTRY TO ESTABLISH A SEPARATE COLLECTION SYSTEM FOR USED TEXTILES, ITS IMPLEMENTATION IS STILL SHAKY

The Waste Framework Directive mandates that from 2025, EU Member States must establish separate collection systems for used textiles, marking a significant shift in how textile waste is managed across Europe. Italy, in anticipation of this requirement, took proactive measures by mandating the establishment of such collection systems as early as January 2022[1]. However, the availability and distribution of these textile collection facilities remains uneven across the country. Currently, about 3 out of 4 Italian towns have set up special urban collection containers for textiles[2].

Today, 23 kg of textiles per inhabitant are placed on the Italian market each year, compared to a collection of only 2.7 kg per capita, which corresponds to about 160,000 tonnes (of which 80,000 collected in the North, 33,500 collected in Central Italy and 46,700 in the South)[3]. Moreover, the incidence of textile waste within undifferentiated collection is estimated at around 9%[4].

The National Recovery and Resilience Plan (NRRP) sets out investments aimed to achieve "100% recovery in the textile sector through Textile Hubs" by 2026, with allocation of funds amounting to €150 million. Through these efforts, Italy aims to significantly reduce its textile waste footprint and enhance its sustainability practices in line with broader European environmental objectives[3].

Textile products placed in the Italian market vs. textile separately collected (kg per capita)[3]



(1) Leg. Decree 2020/116; (2) ISPRA, Green Book (2024); (3) Erion, L'Italia raccoglie solo 2,7 kg/abitante all'anno di rifiuti tessili a fronte di un'immissione sul mercato di prodotti di abbigliamento calzature e tessuti per la casa pari a 23kg/abitante; (4) Fondazione sviluppo sostenibile, Il riciclo in Italia (2023).

KEY MESSAGE
2.1.3

FINANCIAL SECTOR

SINCE SMEs ARE EXCLUDED FROM THE EU TAXONOMY, EVALUATING THE MAGNITUDE OF BANK FINANCING DIRECTED TOWARD THEIR SUSTAINABLE TRANSITION REMAINS CHALLENGING, WITH **ONLY 16%** OF EXTERNAL FINANCING DESTINED TO DECARBONIZATION ACTUALLY **CLASSIFIED AS SUSTAINABLE.**

EUROPEAN FASHION VALUE CHAIN COMPANIES CAN FINANCE THEIR TRANSITION SIGNIFICANT FINANCIAL RESOURCES AVAILABLE

The European Green Deal outlines the EU's comprehensive strategy to achieve climate neutrality by 2050, positioning it at the forefront of global sustainability effort. More specifically, it requires massive investments, estimated at an additional €520 billion per year, at the European level, from 2021 to 2030, compared to the previous decade. Within this framework, additional € 390 billion per year is allocated to energy transition and decarbonization efforts[1]. This amount is notably 50% higher than historical trends in energy investments, reflecting the urgent need for a robust financial response to climate challenges.

Meeting these additional funding needs cannot rely solely on public resources. Indeed, both public and private sectors must significantly increase their investment contributions across the EU in the coming years[1]. This approach is essential to ensure that the ambitious goals outlined can be realized effectively.

From 2021 to 2030, €485 billion has been allocated by the EU for energy transition funds available to companies, including the textile sector[2]. Of this amount, 99% is designated for both public and private entities, independently of their size, and the remaining 1% is specifically directed towards the green transition of small and medium-sized enterprises[2]. The majority of the funds, approximately 82%, are sourced from key European sources, such as the European Fund for Sustainable Development Plus (EFSD+) and the European Regional Development Fund (ERDF).

It is clear that it will be imperative for both public institutions and private entities to collaborate in mobilizing these investments, and the fact that funds directed towards small and medium-sized enterprises, which face challenges in accessing capital, are essential to support their sustainable transition.

485bn € — **Financing available to both European public and private actors**

2bn € — **Are solely dedicated to SMEs, amounting to 1% of the total[2]**

(1) European Environment Agency, Investments in the sustainability transition: leveraging green industrial policy against emerging constraints (2023); (2) TEHA elaboration on European Commission data (2024).

FOR FASHION VALUE CHAIN SMEs, SECURING ADEQUATE FUNDING FOR A SUSTAINABLE TRANSITION REMAINS A MAJOR CHALLENGE

Among all European small and medium-sized enterprises (SMEs) almost 60% state they are investing in sustainable transition efforts. However, despite this positive trend, securing adequate funding remains a major challenge for these businesses. Currently, only 35% of SMEs investments have been supported by external financing, which falls short of covering the substantial funding required for the transformation.

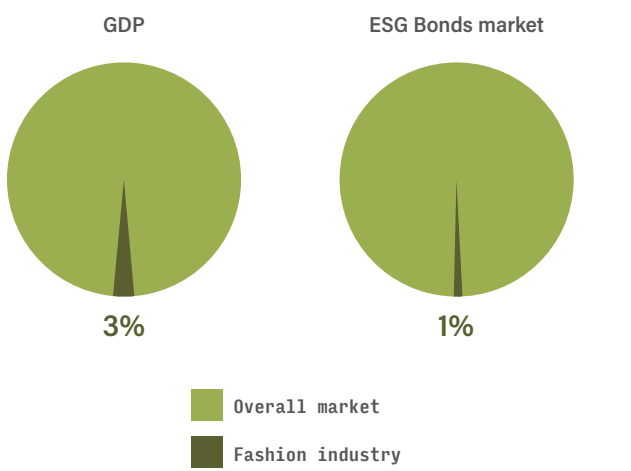
On average, a mere 16% of such external financing qualifies as sustainable finance, with the definition of "sustainability" varying significantly. In 70% of cases, sustainability is determined by grants and subsidy programs requirements. However, these programs are often seen as burdensome due to lengthy application processes.

Either from National authorities or National development banks, grants and subsidies collected by SMEs mainly come from national sources, accounting for approximately 69%.

When it comes to using Green, Social or Sustainability Bonds to finance a sustainable transition, the adoption rate from the fashion sector remains limited. Indeed, our analysis showed an incidence of about 1% of the industry on the bond market.

Overall, while there is a clear interest among SMEs in adopting sustainability initiatives, the challenges related to funding and access to sustainable finance remain substantial. Addressing these barriers will be crucial for enabling SMEs to make progress in their sustainability efforts and contribute to broader environmental goals.

Fashion industry incidence in terms of global GDP and ESG related bonds issuance on the market, 2019-2024[2]



(1) Eurochambers, A European Survey: Access to sustainable finance for SMEs (2023); (2) TEHA Elaboration on data provided by Unicredit (2024).

IN THIS CONTEXT, LARGE BRANDS ARE SHYLY STARTING TO JOIN OR CREATE ALLIANCES TO SUPPORT THE GREEN TRANSITION IN THEIR SUPPLY CHAINS

The fashion industry is currently facing challenges in reducing its environmental impact, primarily due to insufficient funding for decarbonization. Although major brands have committed to reducing emissions, most of the pollution generated in the industry comes from factories outside their control. This reality places a heavy burden on suppliers, who often lack financial resources needed to cover the costs of transitioning to more sustainable practices.

To address this critical funding gap, brands like H&M and Gap Inc. support initiatives such as The Future Supplier Initiative. This program is designed to close this gap by helping suppliers access lower-interest loans for sustainability projects, enabling them to invest in greener technologies and processes. In recent years, there has been an increase of similar initiatives promoted by coalitions supported by fashion brands like The Fashion climate fund, The Good fashion fund, Clean by Design, and individual brand initiatives such as H&M green fashion initiative.

Specifically, The Future Supplier Initiative is supported by the Apparel Impact Institute, which brings together a coalition of brands, financial institutions, and manufacturers to jointly fund the decarbonization of the apparel and footwear industry supply chain, aiming to unlock $2 billion by 2030 as part of the $1 trillion investment needed for the industry to reach net-zero emissions.

This ambitious aim underscores the urgent need for systemic change within the fashion sector. Specifically, while there are promising initiatives aimed at bridging the funding gap for sustainability projects along the supply chain, substantial challenges remain.

6% **Brands disclose the amount of annual investment in renewable energy[1]**

4% **Brands disclose details about the extent of support offered[1]**

24% **Brands disclose investments directed to energy efficient solutions at supplier level[1]**

52 **Million $ unlocked by global fashion brands' initiatives and $ 2 bn to be unlocked by 2030[2]**

(1) What fuels transition, Fashion revolution (2024); (2) TEHA elaboration on public alliances data (2024).

2.2

OVERSIGHT EVOLUTION

CONSUMERS AND SECOND-HAND

KEY MESSAGE
2.2.1

CONSUMERS

CONSUMERS SEEM TO BE AWARE OF THE SECTOR CHALLENGES AND RECOGNIZE THAT **SUSTAINABILITY COMES WITH BOTH COSTS AND EFFORT,** ESPECIALLY AMONG YOUNGER GENERATIONS FOR WHOM COST IS THE BIGGEST BARRIER TO PURCHASING SUSTAINABLY.

GLOBALLY, **GOVERNMENTS ARE CONSIDERED IN CHARGE FOR LEADING** THE CHANGE. ACCORDING TO EUROPEANS, OTHER STAKEHOLDERS, EXCEPT INSTITUTIONS, ARE ALREADY DOING THEIR PART.

COST AND LACK OF INFORMATION ARE THE MAIN BARRIERS WHEN IT COMES TO ADOPTING MORE SUSTAINABLE FASHION CHOICES

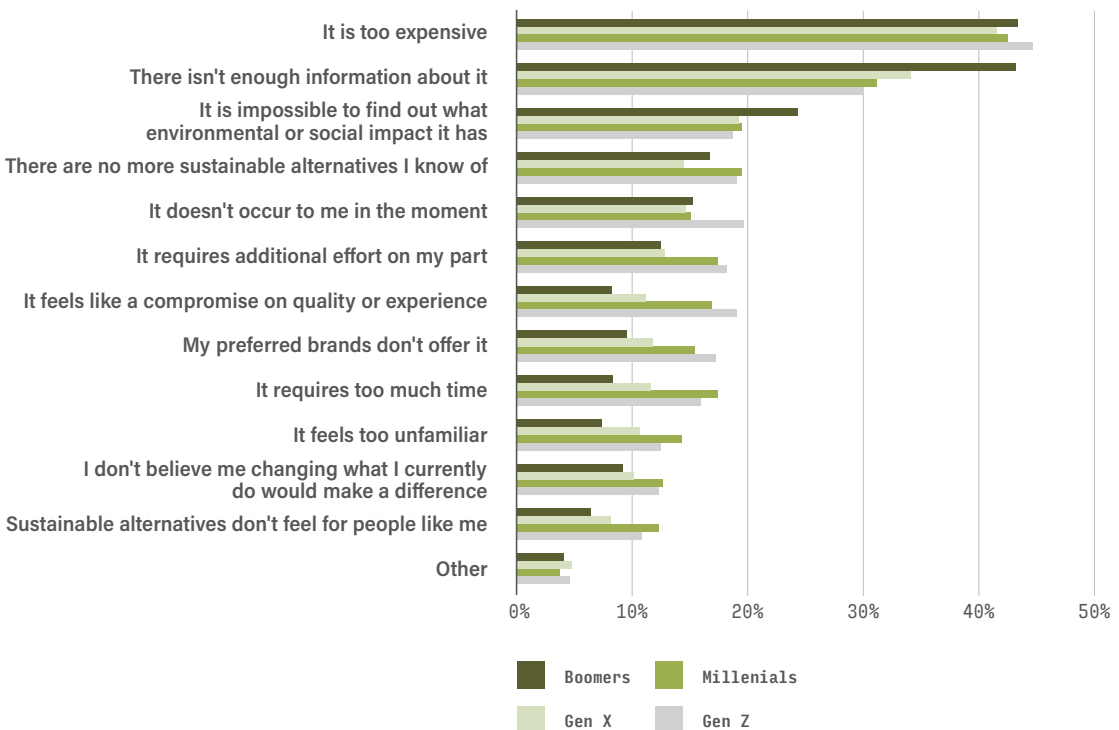
Cost represents the primary barrier for all generations, with a particularly noticeable spike for Gen Z, possibly due to fewer financial resources at their disposal.

However, what is particularly noteworthy is the role of information, or rather the lack thereof, as a significant impediment—especially for Boomers. This generational group appears to struggle more with navigating the complexities of sustainability-related information, likely due to the overwhelming influx of data that requires considerable time and effort to interpret.

While Boomers tend to focus on the top three barriers, Millennials and Gen Z exhibit a wider range of obstacles. Their concerns span across multiple dimensions, reflecting a more nuanced awareness of the challenges in adopting sustainable fashion. Notable differences emerge on issues like the perception that choosing sustainable options feels like a compromise and time constraints, pointing to a more demanding set of expectations.

What are the reasons that make it difficult to be more sustainable when choosing fashion products?

(Results based on Generation)[1]



(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as respondents were able to select multiple options.

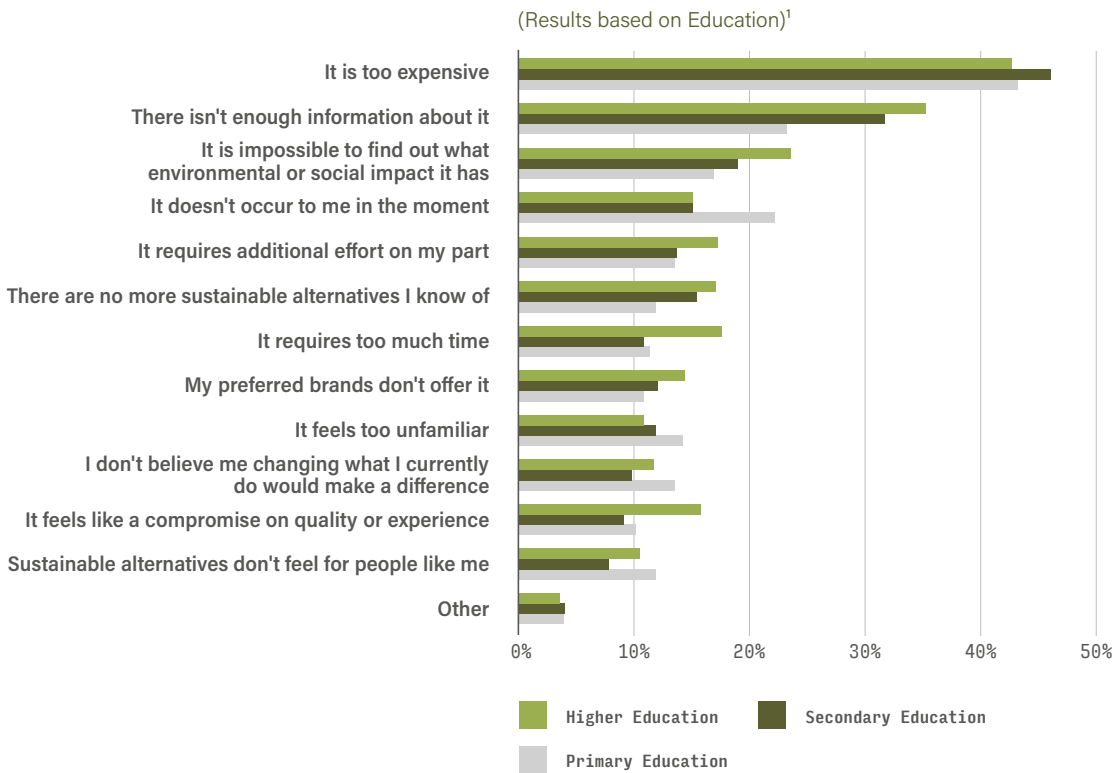
THE SAME BARRIERS APPLY EVEN WHEN LOOKING AT CONSUMERS' LEVEL OF EDUCATION

Cost and lack of information remain the primary barriers, but the latter reveals interesting differences related to educational background.

Consumers with higher education levels often express that there is insufficient information available on the sustainability of products, likely because they seek a higher level of detail. This is further evidenced by their identification of the inability to understand a product's true environmental or social impact as a significant barrier.

Another noteworthy aspect is that consumers with higher education levels also perceive the effort required to make sustainable choices as a significant barrier. They are the ones who believe that it takes too much time and also view sustainable products as a compromise between product quality and the shopping experience.

What are the reasons that make it difficult to be more sustainable when choosing fashion products?

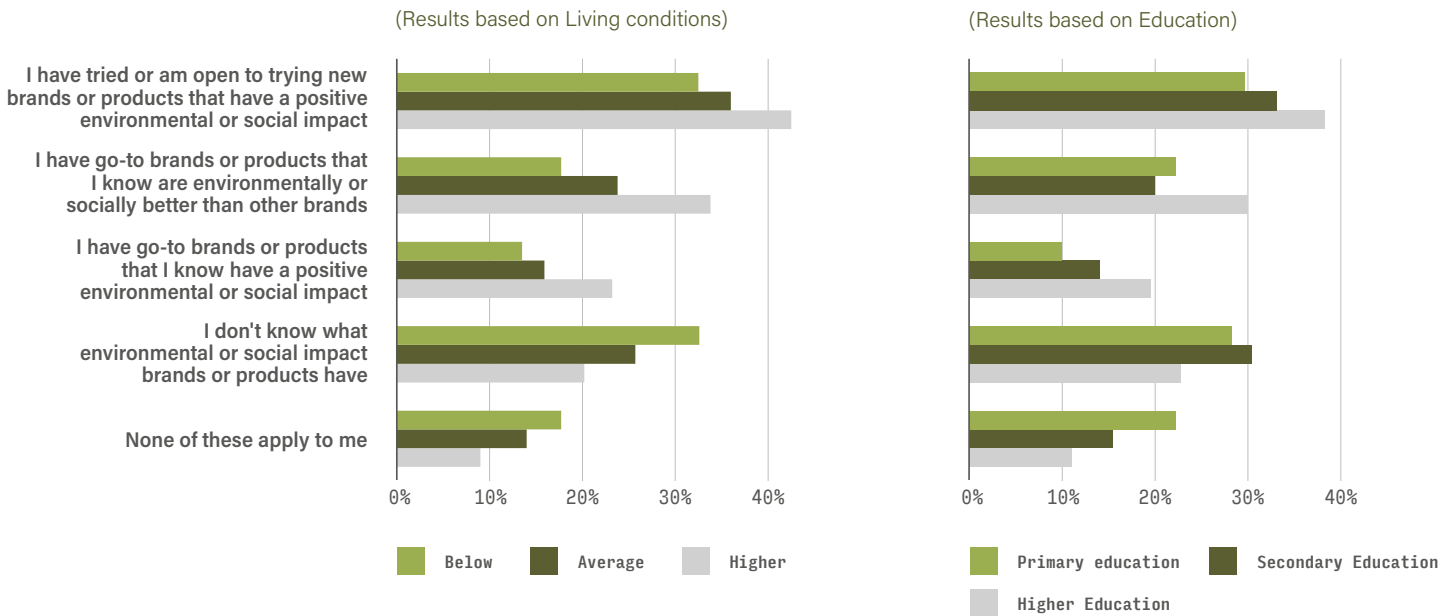


(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as respondents were able to select multiple options.

A GREAT PROPORTION OF MORE EDUCATED AND AFFLUENT CONSUMERS SAY THEY ARE OPEN TO ACTIVELY SEEKING OUT OR SUPPORTING MORE SUSTAINABLE BRANDS THAN OTHERS

Consumers with higher education and greater financial means are more likely to explore and remain loyal to brands with a positive environmental or social impact. On the other hand, those with lower income or education levels tend to lack awareness of such impacts or do not align themselves with statements regarding loyalty to sustainable brands, likely due to the higher costs associated with these products.

Which statement best describes your approach to choosing fashion brands or products based on their environmental or social impact?[1]



(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as respondents were able to select multiple options.

GOVERNMENTS SHOULD LEAD CLIMATE ACTION WHILE EU CONSUMERS FEEL THAT BOTH BUSINESSES AND THEMSELVES ARE ALREADY CONTRIBUTING SUFFICIENTLY

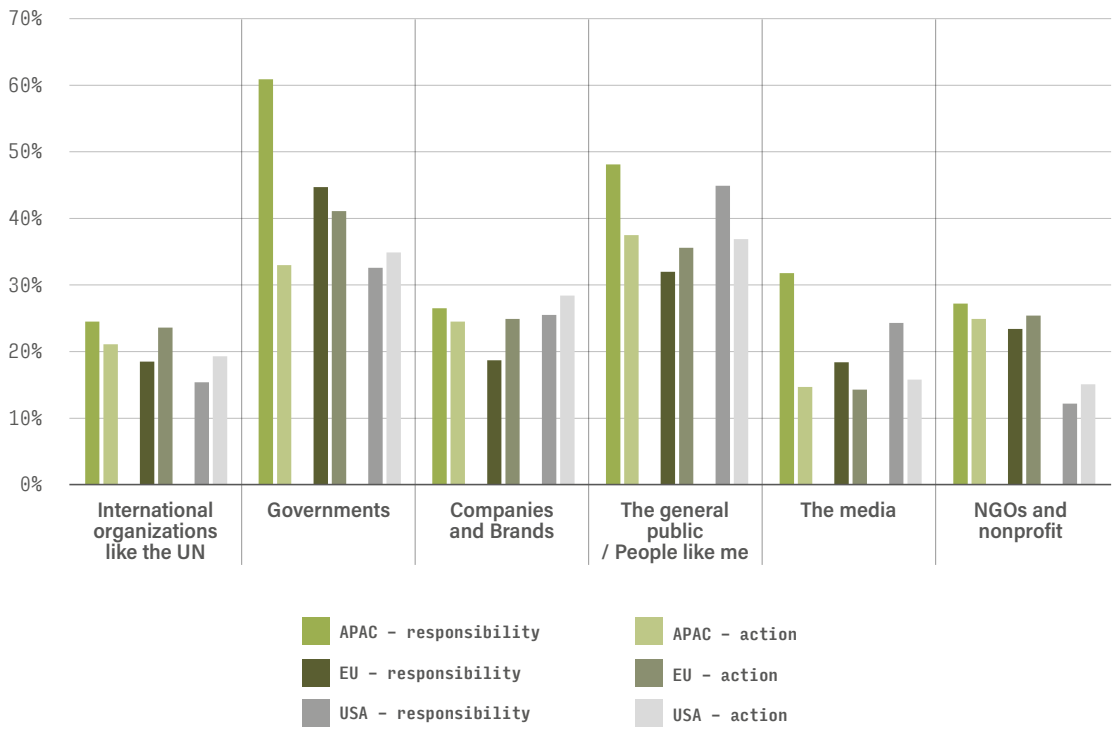
Governments are widely seen as the primary entities responsible for tackling climate change, especially in the APAC region, where the gap between perceived responsibility and actual action is the largest.

In the EU consumers believe that both companies and the general public, including themselves, are already making meaningful contributions to climate action. There is a prevailing sentiment that they are doing more than is required or expected. Interestingly, consumers are also held responsible for climate action in the APAC region and the USA, yet there is a lower level of perceived action from individuals in these areas.

A closer look reveals that international organizations and NGOs are seen as playing a relatively smaller role in driving climate action compared to governments and corporations.

Moreover, media is assigned limited responsibility across all regions.

Responsibility vs. Action
Whose responsibility is it to help solve/tackle climate change and environmental issues? Who do you think is taking significant actions to help solve/tackle it?[1]

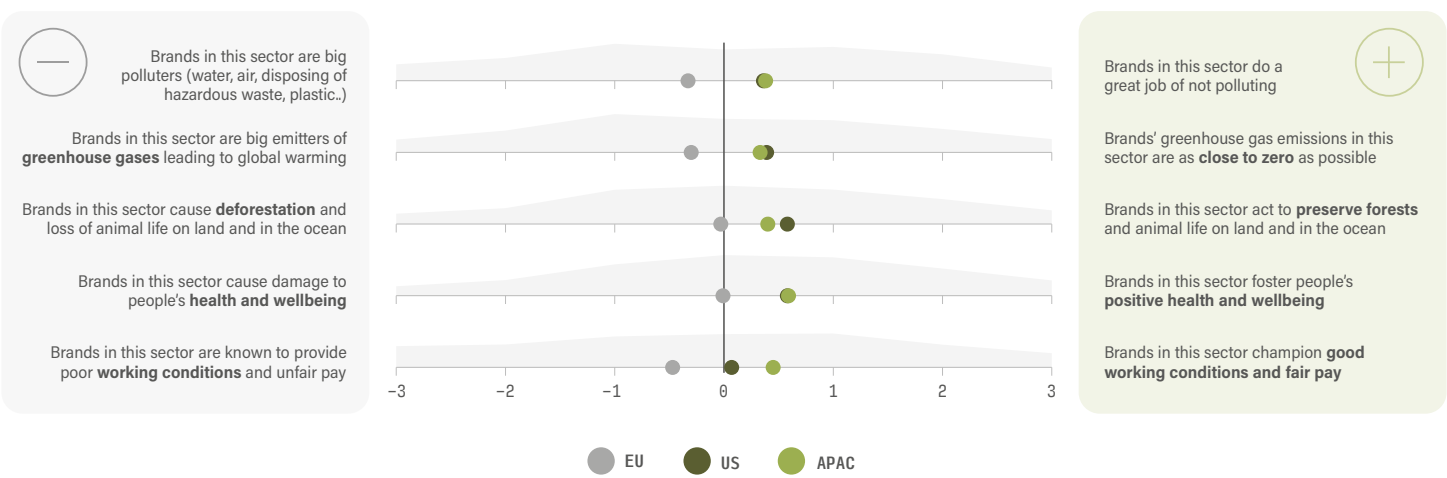


(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents. Total does not equal 100% as respondents were able to select multiple options.

BRANDS ARE NOT VIEWED NEGATIVELY BY CONSUMERS DESPITE EUROPEANS' MILD CONCERNS ABOUT POLLUTION, CO_2 EMISSIONS, AND WORKING CONDITIONS

The distribution of the sample indicates that most consumers adopt a neutral stance, suggesting that sustainability concerns are not viewed as particularly pressing overall. European consumers, however, tend to be slightly more critical, particularly regarding pollution and carbon emissions. Interestingly, there is a higher level of awareness around working conditions, highlighting a more pronounced sensitivity to labor issues compared to environmental impacts.

How would you rate brands in this sector on the following dimensions (on a scale of -3 to +3)?[1] Clothing and footwear sector[1]

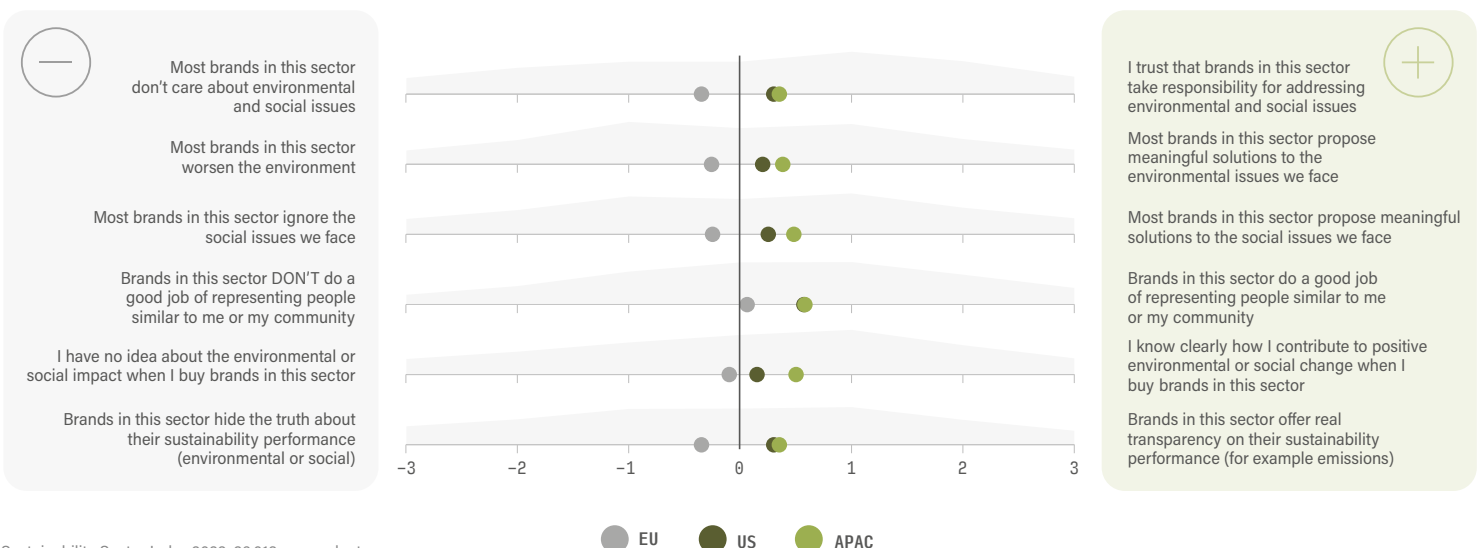


(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents.

AS A RESULT, CONSUMERS BELIEVE THAT BRANDS DO NOT HAVE TO GO TO GREAT LENGTHS TO MITIGATE THEIR IMPACTS

The same phenomenon can be observed when evaluating the behavior of brands. In essence, brands are not perceived as particularly responsible for addressing environmental or social issues, as though they are not seen as a significant part of the problem. This indicates a general sense that brands in this sector are not held accountable for their role in contributing to or solving these issues. Consumers seem to suggest that brands could be doing more, but there is no strong expectation that they will.

Based on what you have seen, heard, or experienced, how would you rate brands in this sector on the following dimensions? (on a scale of -3 to 3)?[1] Clothing and footwear sector[1]



(1) TEHA elaboration on Kantar data - Sustainability Sector Index 2023, 26,018 respondents.

KEY MESSAGE
2.2.2

SECOND-HAND

THE SECOND-HAND SEGMENT IS MARKED BY INVESTMENTS AND GROWTH DRIVEN BY CONSUMER DEMAND, WITH FORECASTS INDICATING A POSITIVE TREND. HOWEVER, **PUBLICLY AVAILABLE ECONOMIC AND FINANCIAL DATA ARE STILL LIMITED,** EVEN FOR KEY PLAYERS, MAKING IT CHALLENGING TO ASSESS THE TRUE STATE OF THE MARKET.

THE SECOND-HAND LUXURY MARKET IS RAPIDLY GROWING, DRIVEN BY CONSUMER DEMAND, WITH LARGE INVESTMENTS

The second-hand luxury market has experienced remarkable growth, reaching €45 billion in 2023. This surge is primarily driven by Europe, which accounts for up to 50% of global sales in this sector[1]. 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.

The market trajectory is expected to continue on an upward trend, with projections indicating a growth rate of 148% by 2028. Notably, luxury hard goods, such as watches and jewelry, continue to dominate the landscape, comprising over 80% of total sales[2].

This flourishing market reflects changing consumer preferences and macroeconomic conditions, which are driving more sustainable shopping through second-hand platforms[4].

Moreover, the landscape of second-hand luxury is being further accelerated by significant investments in the sector. From 2021 to 2024, over $4.7 billion has been funneled into resale-focused funding, enhancing the growth and competitiveness of secondhand luxury platforms.

163 Brands have a resale shop, 18 more than 2023[3]

6.4% Resale shop growth, double the previous year's statistics[3]

74% Of retail executives who don't currently offer resale are either considering or planning on getting into resale in the future, up 5 pts from 2022[3]

16 Merger and acquisitions of secondhand platforms from 2021 to 2024[4]

>$4.7bn Resale-focused investment in total from 2021 to 2024[4]

(1) Bain Company, Long Live Luxury: Converge to Expand through Turbulence (2024); (2) Statista, Secondhand apparel market value worldwide from 2021 to 2028 (2024); (3) ThredUP, Resale report (2024); (4) TEHA, Elaboration on The Fashion Law Data, A Running Timeline of Resale Funding and M&A (2024).

HOWEVER, THE AVAILABLE DATA ON ECONOMIC PERFORMANCE ARE STILL INSUFFICIENT TO EVALUATE THE SECTOR SOLIDITY

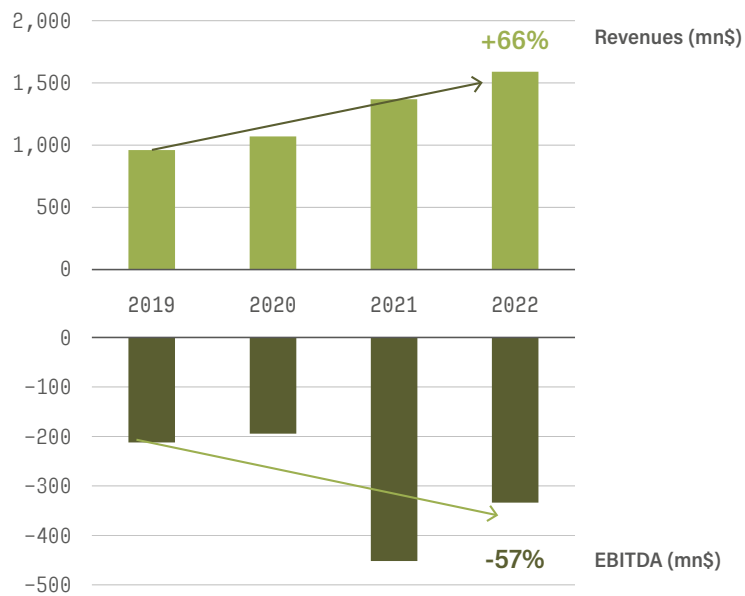
The second-hand platform sector saw a significant 66% revenue growth from 2019 to 2022, but with EBITDA losses of 57%, raising doubts about its long-term sustainability. Adding on this, with year-to-year data often fluctuating, a lack of solid and transparent reporting on economic and financial data makes it difficult to accurately assess the solidity of these platforms[1,2].

While the second-hand clothing market is often declared to be a sustainable alternative to fast-fashion, recent studies suggest that the environmental benefits are limited by the rebound effect, where for every new item avoided, 1.23 used items are purchased[2].

The phenomenon of "moral licensing" leads many consumers to justify overconsumption, believing that buying second-hand is always an eco-friendly act, thereby amplifying the rebound effect[2]. As a result, the environmental advantages of second-hand purchases are often diminished.

Overall, along with doubts regarding the sustainable gains of the sector, it is noteworthy that a comprehensive assessment of the sector economic and financial stability remains challenging due to the lack of economic and financial information.

Second-hand platforms revenues and EBITDA[1]



(1) TEHA 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*; (2) Ciechelska A. et all., Circular Economy Rebound Effect in the context of second-hand clothing conspumption (2023).

2.3

OVERSIGHT EVOLUTION

TOP 100 EU FASHION COMPANIES' AND 30 GLOBAL RETAILERS' PERFORMANCE

2.3 OVERSIGHT EVOLUTION – TOP 100 EU FASHION COMPANIES' AND 30 GLOBAL RETAILERS' PERFORMANCE

KEY MESSAGE
2.3.1

TOP 100 EU FASHION COMPANIES' PERFORMANCE

THE LARGEST COMPANIES IN EUROPE SHOW CONTINUOUS **IMPROVEMENT IN OVERSIGHT,** IN PARTICULAR THOSE THAT ALREADY HAD STRONG REPORTING PRACTICES.
A SAMPLE OF **34 COMPANIES ARE MANAGING TO REDUCE EMISSIONS TWICE AS FAST AS REQUIRED** BY FIT FOR 55 AND THREE TIMES FASTER THAN THE EUROPEAN INDUSTRY AVERAGE.

AN ANALYSIS ON OVER 130 COMPANIES IN THE FASHION INDUSTRY HAS BEEN CONDUCTED TO ASSESS THEIR TRANSITION READINESS

Beginning in the fiscal year 2024, all large public interest companies in Europe will be required to adhere to the new Corporate Sustainability Reporting Directive (CSRD). This Directive introduces several new obligations, including the implementation of structured reporting processes, the establishment of clear improvement targets, and the integration of ESG-focused governance. Notably, it marks a significant increase in reporting standards and a shift on performances.

For the third year, TEHA conducted an analysis to measure the level of sustainability management and performance across the entire fashion value chain comprising over 130 companies. The analysis included 31 international retailers covering both e-commerce platforms and brick-and-mortar stores, and the largest 100 European companies by turnover in the industry.

The panel was evaluated based on oversight, assessing whether companies have management systems in place, and performance, examining the reporting and trends of KPIs across the most relevant sustainability topics, which will be the basis of the non-financial disclosure requirements set by the CSRD. The methodology in use provides more points to companies that exhibit specific practices: for example, having decarbonization targets aligned with the science (SBTi), reporting data on wages along the supply chain, and adopting an ESG-linked remuneration system for management and executives.

The analysis was conducted exclusively by reviewing the balance sheets and sustainability related publicly available information on the latest three years.

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[1] or quantitative
	Biodiversity preservation	
	Water consumption	KPIs included in the reporting, and their unit of measurement
SOCIAL	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
	Wages along the value chain	
	Supply chain management	

(1) Qualitative targets are defined as non-quantitative goals, for those companies that are reporting initiatives and/or baseline.

IN ONE YEAR, THE AVERAGE OVERSIGHT INCREASED SLIGHTLY, DRIVEN BY THE COMPANIES WITH AN ALREADY EXISTING REPORTING STRUCTURE

An oversight comparison over three years shows an improvement in reporting. To begin with, one additional company started reporting targets in 2023. Average oversight score rose from 0.43 in 2022 to 0.48 in 2023, with a 12% raise. This increase is due to a moderate improvement among companies. In fact, 33 of them improved their ESG oversight, 35 remained steady, and 4 have worsened. While 28 companies still don't publish sustainability reports.

Luxury companies scored the highest score in average, closely followed by mass-market and fast fashion players.

All companies that improved in 2023 already had a strong reporting structure (>0.3), with 66% scoring between 0.3 and 0.5 in 2022.

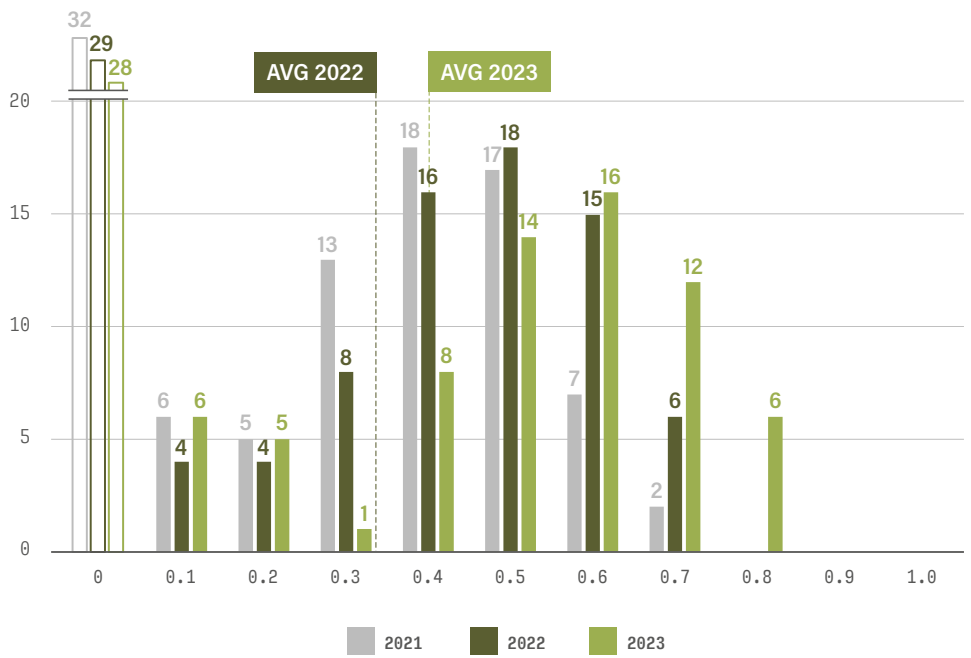
↑ **33** Companies improved*

↓ **4** Companies worsened*

= **35** Companies steady

× **28** Companies without a Sustainability Report

Comparison between 2021-2023 oversight distribution[1]



(1) TEHA elaboration on all latest balance sheets and sustainability related publicly available information for fiscal years 2021-22-23 from European fashion and luxury value chain companies that will be subject to CSRD obligations; (*) To be considered as improved or worsened, the difference between the score of the two years was in absolute value higher than 0.05.

COMPANIES MOVING FROM A REPORTING-BASED APPROACH TO SETTING LONG-TERM TARGETS DRIVE THE IMPROVEMENT ON ENVIRONMENT

Oversight across all environmental topics is showing continuous improvement since 2021, with only one company that still does report performance on or has set targets on at least one environmental topic.

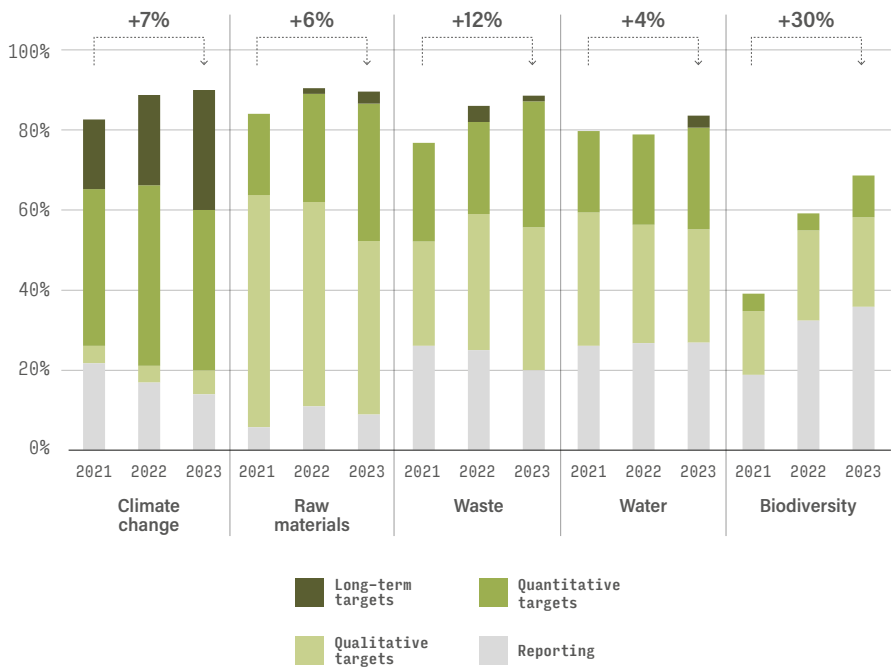
Regarding climate change, 5 new companies established a long-term plan, confirming it as the only topic with a predominantly target-based approach.

Regarding the use of raw materials, several companies shifted from a qualitative approach to the adoption of quantitative targets. While this topic is one of the most developed, it shows the second-lowest percentage increase among all environmental dimensions, with an oversight that remains stable.

On waste and water management, the oversight is increasing. Notably, waste represents the dimension with the second highest percentage increase. The improvement is led by new companies setting quantitative targets. Regarding water management, 2 new companies have established a long-term goals approach.

Despite biodiversity remains the least addressed dimension, it has seen the most significant oversight improvement, with a 16% rise in companies adopting a target, and more companies disclosing key performance indicators (KPIs). Still, comparability across the sample is a long-way path.

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



(1) TEHA elaboration on all latest balance sheets and sustainability related publicly available information for fiscal years 2021-22-23 from European fashion and luxury value chain companies that will be subject to CSRD obligations.

34 LARGE COMPANIES SHOW AN AVERAGE 18% DECREASE IN INFLATION ADJUSTED EMISSIONS-REVENUES RATIO OVER THE LAST TWO YEARS

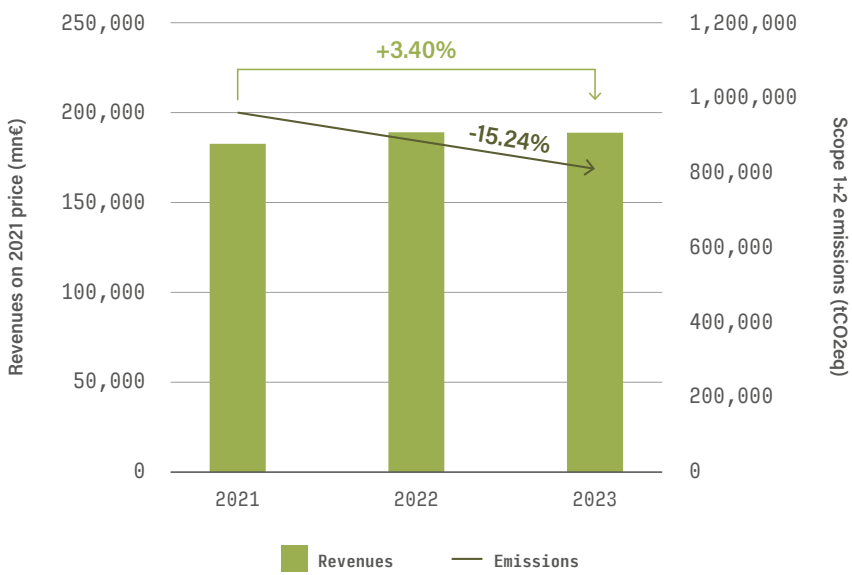
In our analysis, out of the 100 companies subject to benchmarking, we were able to collect consistent data on the 2021-2023 CO_2 emissions and economic data of 41 companies.

Within this sample, the correlation between economic performance and emissions shows a significant decoupling, establishing a clear trend, also considering the inflation effect by adjusting the sample revenues.

Regarding carbon intensity, out of 41 companies, 34 experienced a decrease, while only 6 saw an increase. Specifically, over the past three years, they experienced an inflation adjusted revenue growth of 3.40%, while emissions decreased by 15.24%, resulting in an average carbon intensity reduction of 18%, decreasing from 12.7 $tCO_2eq/mn€$ in 2021 to 9.86 $tCO_2eq/mn€$ in 2023.

The analysis of those companies shows that decoupling economic growth from emissions was done mainly through the purchase of renewable energy and the implementation of energy efficiency measures. This observation is evident even when Scope 1 and 2 emissions encompass at least part of the production processes. Specifically, this is the case of 24 companies.

Cumulated revenues and emission of 41 companies over a three-year period[1]



(1) TEHA elaboration on all latest balance sheets and sustainability related publicly available information for fiscal years 2021-22-23 from European fashion and luxury value chain companies that will be subject to CSRD obligations.

LARGE COMPANIES ARE DECARBONIZING TWICE AS FAST AS REQUIRED BY THE FIT FOR 55 TARGETS, LEAVING THE AVERAGE INDUSTRY BEHIND

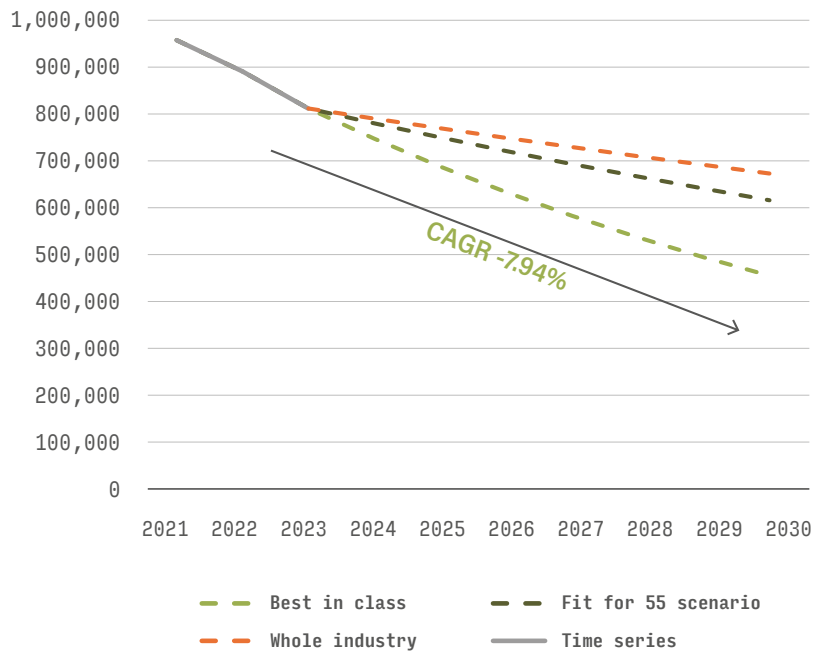
The comparison of emissions scenarios is driven by the data from our 41 reporting companies, which represent what in the graph is referred to as the “Best in class” scenario.

Best in class scenario is characterized by a compound annual growth rate (CAGR) of -7.94%, which is 3 times faster than the CAGR of the whole industry, which is significantly lower at -2.64%.

Notably, in comparison to the scenario outlined by the EU Fit for 55, which requires a CAGR of -3.86%, the companies of our analysis are on track to exceed this target, demonstrating a faster pace of decarbonization. These figures highlight the potential for the Best in class to set an example for the entire EU industries in leading the way toward industry-wide decarbonization.

In recognizing a particularly positive result for the large companies in terms of decarbonization efforts, it’s important to emphasize the significant financial advantage they have compared to other players along the supply chain. Indeed, with EBITDA-to-revenue ratios up to four times higher than smaller actors, these companies have the necessary resources to fund their sustainable transition.

Best in class, compound EU fashion industry emissions and Fit for 55 decarbonization scenarios compared (tCO_2)[1,2]



(1) TEHA elaboration of European Environment Agency: EEA greenhouse gases - data viewer from 2018 to 2022 (retrieved on 06/06/24); (2) TEHA elaboration on all latest balance sheets and sustainability related publicly available information for fiscal years 2021-22-23 from European fashion and luxury value chain companies that will be subject to CSRD obligations. The graph includes all companies that reported their Scope 1 and 2 emissions for the 2021-2023.

MOST COMPANIES ARE IMPROVING OVERSIGHT ON OWN SOCIAL TOPICS, BUT DATA ON WAGES ALONG THE SUPPLY CHAIN ARE STILL MISSING

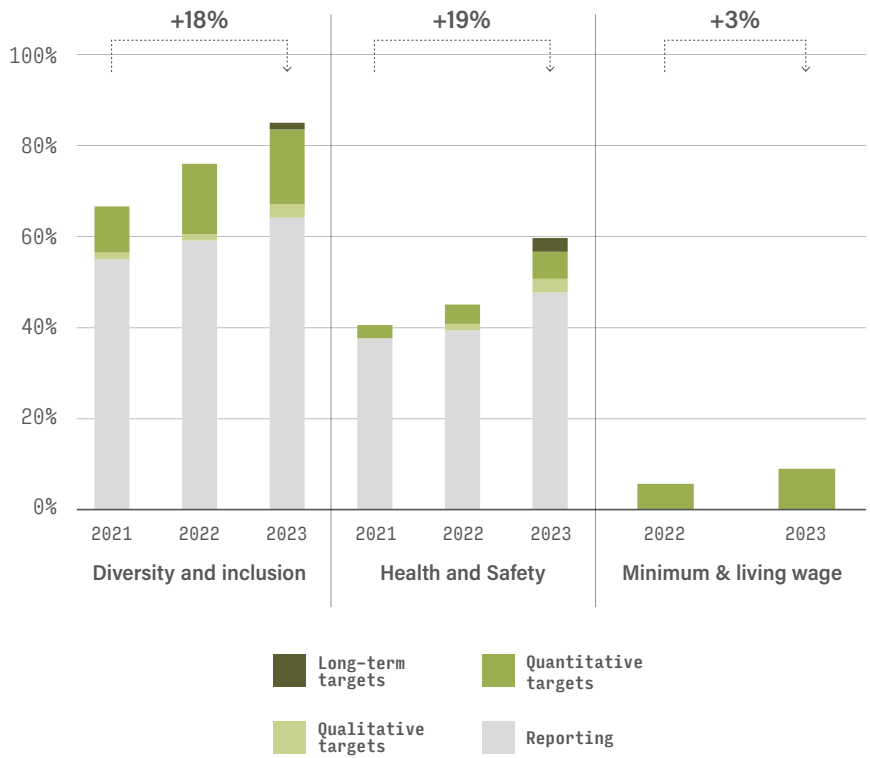
The oversight is increasing across all social dimensions, reflecting growing attention to these topics.

Diversity and inclusion continues to be marked by the highest level of oversight among all social dimensions, with an 18% increase in reporting from 2021 to 2023. Notably, one company adopted for the first time a long-term target for this dimension.

Concerning Health and safety, this topic represents the dimension with the highest percentage increase, but it is still addressed by just 60% of the companies analyzed. Specifically, there has been an increase of companies adopting a target, with 2 companies establishing for the first time a long-term goal. Nevertheless, both social topics still primarily rely on reporting rather than target-setting.

Regarding the minimum and living wage in the supply chain, more companies have begun addressing the topic. However, 49 companies still take a commitment-based approach, opting not to provide quantitative data. This data highlights an alarming gap in terms of monitoring along the supply chain. The percentage of companies disclosing quantitative data related to minimum and living wages has increased by just 3% between 2022 and 2023, underscoring the slow pace of progress in this area.

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



(1) TEHA elaboration on all latest balance sheets and sustainability related publicly available information for fiscal years 2021-22-23 from European fashion and luxury value chain companies that will be subject to CSRD obligations.

WHILE THE AVERAGE GOVERNANCE OVERSIGHT STAYS ALMOST CONSTANT, SOME COMPANIES SHOW A SHARP IMPROVEMENT, AND SOME WORSEN

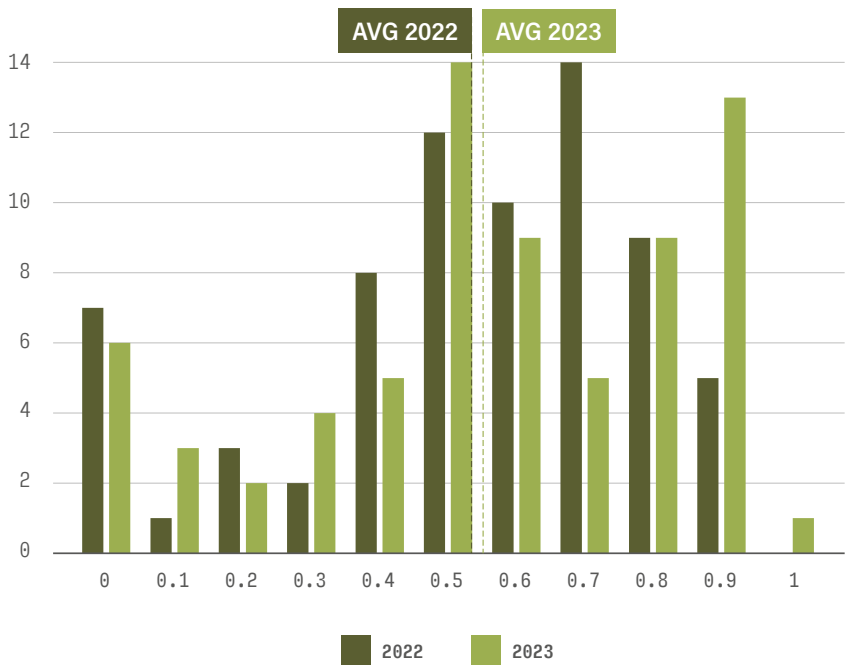
Concerning governance oversight, the analyzed topics include supply chain management and sustainability governance, which encompasses the presence of a dedicated sustainability function within the company and the implementation of an ESG-linked remuneration system for management and/or executive levels. Even if the average difference between 2022 to 2023 remained constant (from 0.53 to 0.55), many companies showed a change in terms of oversight, with 25 improving and 20 worsening. Notably, one company reached the maximum score for the first time across all the ESG dimensions.

On supply chain management, there has been a 7% increase in the number of companies adopting a target-based approach, though only one company has established a long-term target.

Additionally, the percentage of companies with a dedicated sustainability role or function grew by 3%, with two additional companies. Specifically, 36 companies have established this role at the executive level, while 24 have implemented it at the management level.

Concerning the percentage of companies adopting a remuneration system linked to ESG performance, either in the form of short-term management by objectives (MBO) or long-term incentives (LTI), there has been an increase from 30% in 2022 to 37% in 2023. Notably, the ESG-linked remuneration is characterized by an average weight of 19% of the total variable remuneration.

2022 vs 2023 Governance Oversight Distribution[1]



(1) TEHA elaboration on all latest balance sheets and sustainability related publicly available information for fiscal years 2021-22-23 from European fashion and luxury value chain companies that will be subject to CSRD obligations.

FASHION INDUSTRY FALLS BEHIND OTHER SECTORS IN ADOPTING ESG LINKED VARIABLE REMUNERATION SYSTEMS

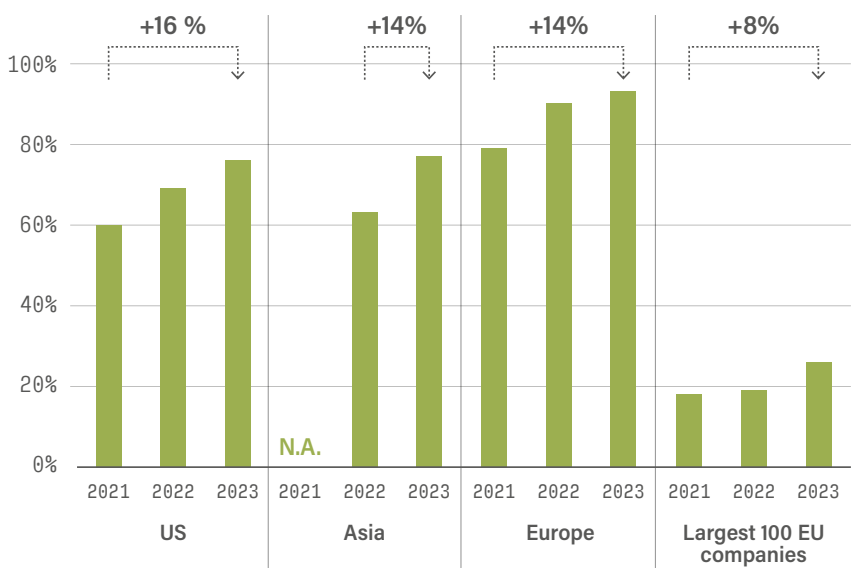
Integrating ESG topics into remuneration systems is regarded as a pivotal strategy for advancing the companies' sustainable transition. By linking executive compensation to ESG performance, companies can incentivize leadership to prioritize sustainable practices, and, in addition, it can foster responsible behavior and accountability towards stakeholders.

When examining the integration of executive variable compensation with the achievement of ESG targets, the fashion sector falls significantly behind other industries, regardless of the region. In the 100 largest European companies from the fashion industry, only 26% have integrated ESG-based executive compensation into their remuneration strategies.

In terms of performance in 2023, the European Union stands out as a leader in this topic, with a score of 93%, surpassing the US that recorded a score of 76% and Asia, which achieved 77%. The disparity in scores indicates a regional divide in commitment to sustainability practices, with European companies taking more proactive steps toward integrating ESG metrics into their governance structures[1].

Despite strong expectations for improvement from the less mature segment, it has not met growth expectations, especially when compared to Europe's more developed industry, where limited room for further progress makes substantial advancement less likely. Indeed, over the past three years, the segment of the 100 largest EU companies has shown only a modest improvement of 8%.

Incidence of companies integrating ESG criteria into executive variable remuneration (%)[1]



(1) TEHA elaboration on Global Report on ESG Metrics in Executive Incentive Plan, WTW (2021,2022,2023).

KEY MESSAGE
2.3.2

30 GLOBAL RETAILERS' PERFORMANCE

GLOBAL RETAILERS ARE STRUGGLING TO ENHANCE THEIR ESG OVERSIGHT, EVEN WITH **2 NEW REPORTING COMPANIES** THE OVERALL PERFORMANCE IS CONSISTENTLY STABLE ACROSS ALL DIMENSIONS.

GLOBAL RETAILERS STRUGGLE TO IMPROVE THE QUALITY OF THEIR REPORTING

Retailers are well-positioned to steer consumers toward responsible purchases by promoting sustainable products, transparent practices, and encouraging returns and second-hand options. The analysis on a selection of 31 international retailers was conducted for the third year in a row, both on e-commerce and brick and mortar stores[1], to investigate sustainability practices within the segment. Out of these 31 companies, 61% are mass retailers and 39% are luxury retailers, while 75% also own an in-house private label.
11 companies have published a sustainability report for the reporting year 2023. Compared to 2022, 3 companies have not released an update yet, while 2 companies published their first edition[1]. Comparison between 2022 and 2023 shows a slight improvement in the quality of reporting. In 2023, 11 companies scored the same as 2022, 2 improved and 17 did not publish an updated report. Average score in 2022 was 0.43 and remained unchanged in 2023. Whereas the broader fashion industry is starting to advance its reporting targets – as highlighted by findings on the top 100 global players – the retail sector lags behind, settling on its 2022 performance.

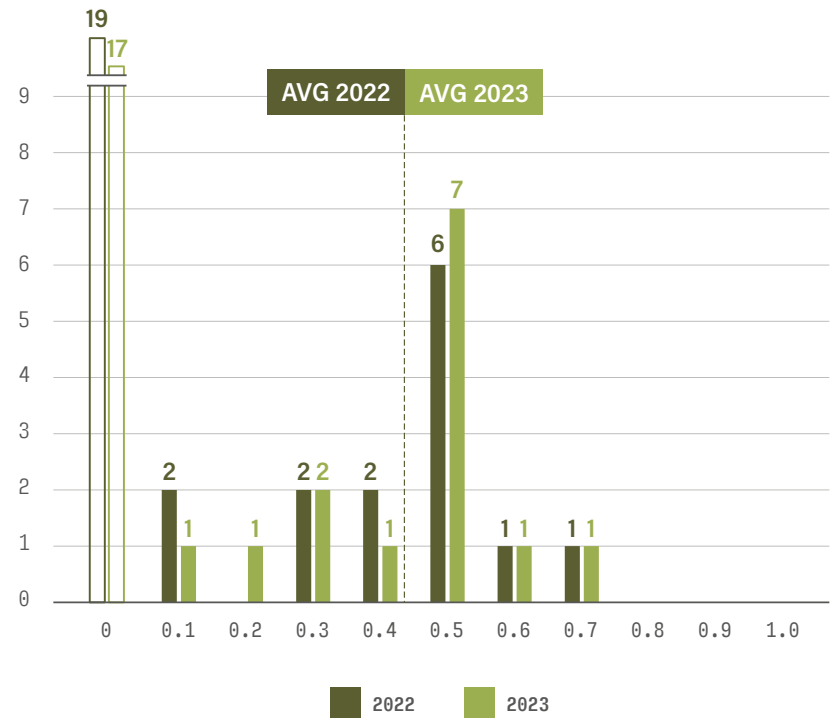
↑ **4** Companies improved*

↓ **0** Companies worsened*

= **10** Companies steady

× **17** Companies without a Sustainability Report

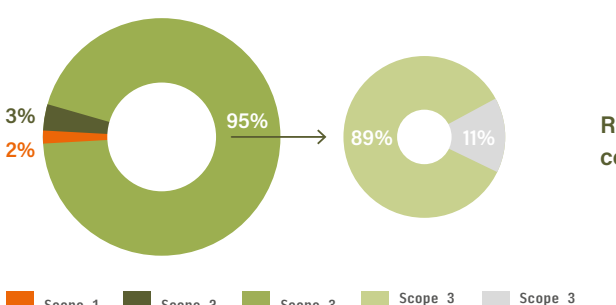
2022 vs 2023 Retailers Oversight distribution[1]



(1) TEHA on publicly 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.
To be considered as improved or worsened, the difference between the score of the two years was in absolute value higher than 0.05.

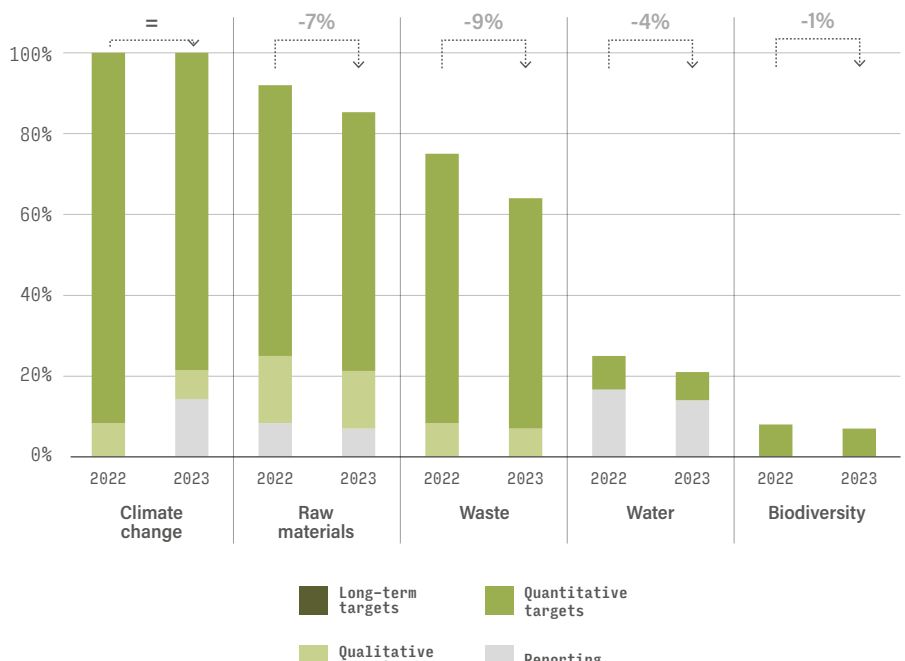
ENVIRONMENTAL OVERSIGHT REMAINS STEADY, WITH THE PERCENTAGE DECREASE DUE TO NEW REPORTS LACKING A TARGET-APPROACH

Much of the effort by retailers is focused on climate change: about 79% set quantitative targets on CO_2 emissions, 7% set qualitative targets and 14% just reported its emissions. 71% have made commitments under the Science Based Target initiative. Among companies that set long-term targets, 71% include Scope 3 emissions goals. Direct emissions (Scope 1) constitute just 2% of total greenhouse gas emissions, while indirect emissions (Scope 2) account for 3%. The majority of emissions, 95%, stem from value chain activities (Scope 3). 89% of this share is currently covered by long-term decarbonization goals set by retail fashion companies. The shares of companies setting quantitative targets regarding the use of raw materials and waste management, 64% and 57% respectively, are in line with 2022. Biodiversity and water management remain under-addressed topics in 2023, each managed through quantitative targets by just one company.



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

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



(1) TEHA on publicly available data for fiscal years 2022-23 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.

CONSIDERING RETAILERS REPORTING FOR THE FIRST YEAR, OVERSIGHT ON SOCIAL ASPECTS DECREASES, PARTICULARLY ON DIVERSITY AND INCLUSION

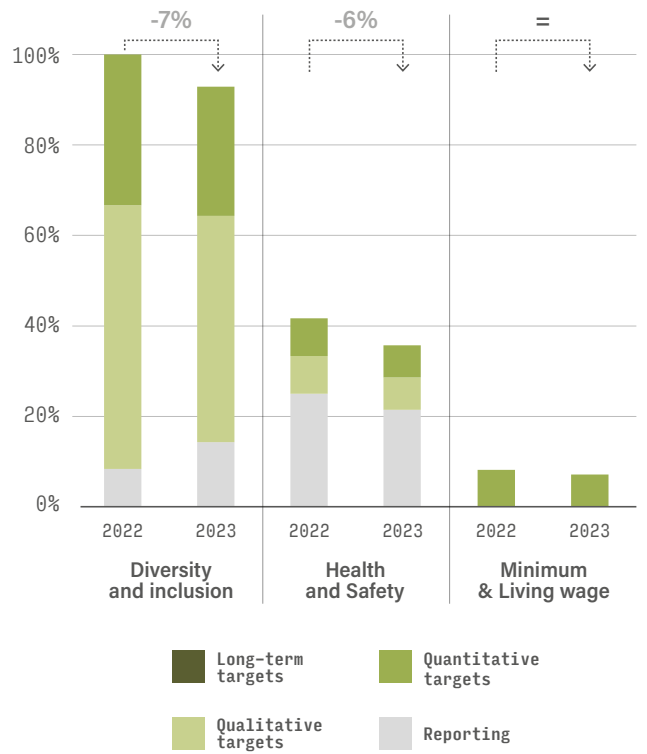
With an increasing number of companies that are reporting on their sustainability performances, the incidence of those that set a target on social dimensions slightly decreased, even if the absolute number is steady.

Diversity and Inclusion remains the most overlooked topic, with 50% of companies adopting qualitative targets, 29% implementing quantitative targets, and 14% relying solely on reporting. However, none have committed to a long-term approach in this regard.

Health and Safety dimension is monitored by less than the half of the retailers analyzed. Specifically, one company has established a quantitative target, another company has set a qualitative target, and 3 companies adopted a reporting approach.

Even if retailers are at the top of the supply chain, just a few of them are still setting target on the respect of minimum and living wage alongside the operations network. Notably, only one retailer has disclosed quantitative data regarding wages along its supply chain for both years analyzed.

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



(1) TEHA on publicly available data for fiscal years 2022-23 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.

THE GOVERNANCE OVERSIGHT EXPERIENCED AN OVERALL DECREASE, DUE TO NEW REPORTS LACKING TARGETS

The distributions of retailers' oversight scores about governance remains steady, with only 2 retailers experiencing a 0.1 increase thanks to the adoption of remuneration system linked to ESG performance. The two new reporting companies score 0.1 and 0.6, respectively.

Regarding specifically the governance dimension, all companies analyzed have a dedicated role or function related to sustainability, with 29% at the management level and 71% at the executive level. Moreover, the number of companies linking remuneration to ESG performance remained steady at 7.

Concerning supply chain management, the number of companies setting quantitative targets, corresponding to the 64%, remained unchanged with respect to 2022.

The remaining companies are characterized either by a reporting approach, the 14% of the total, or decided to not disclose regarding this topic.

2022 vs 2023 Governance Oversight Distribution[1]

(1) TEHA on publicly available data for fiscal years 2022-23 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.

2.4

OVERSIGHT EVOLUTION

ITALIAN SUPPLY CHAIN ASSESSMENT

KEY MESSAGE
2.4.1

ITALIAN SUPPLY CHAIN ASSESSMENT

THE **OVERSIGHT** OF SUSTAINABILITY ISSUES WITHIN THE ITALIAN SUPPLY CHAIN HAS **SLIGHTLY WORSENED ACROSS BUSINESSES OF ALL SIZES,** WITH A PARTICULAR FOCUS ON SMALLER COMPANIES (< €30 MN).

THE **LACK OF INTERNAL COMPETENCIES** WITHIN COMPANIES REPRESENTS TO BE THE MAIN OBSTACLE TO EFFECTIVELY MANAGE SUSTAINABILITY ISSUES.

PERIMETER SURVEYED AND DISCLAIMER

In measuring the readiness of the Italian fashion supply chain for the third year in a row, TEHA administered an ESG assessment to a sample of companies. This year 373 responses have been collected, which represents practically the same statistical sample as in 2023[1].

The sample under consideration, composed mainly of textile companies, makes it clear that the Italian supply chain is small: 76% are under € 30 mn in turnover.

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

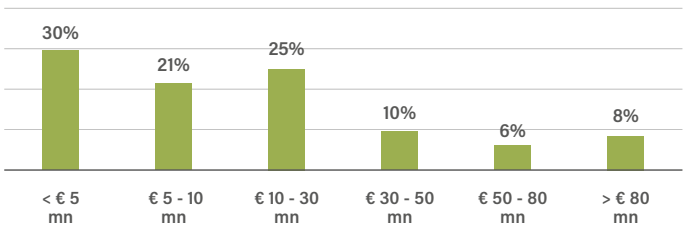
ENVIRONMENT
- Climate change
- Use of raw materials
- Waste management
- Biodiversity preservation
- Water consumption

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

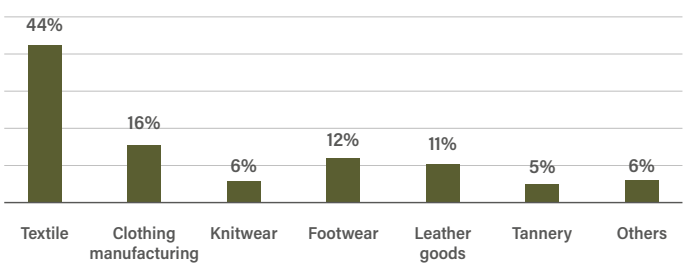
GOVERNANCE
- Sustainability governance
- Human rights
- Supply chain management

It is important to note that the companies who decided to participate in the assessment 16% 12% are those who are likely to feel more confident about the topic. If we extended these 6% 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) TEHA 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, WITH A SMALL DECLINE IN SMALL COMPANIES

The graph presents the oversight of sustainability practices across supply chain companies over the past three years (2022-2024).

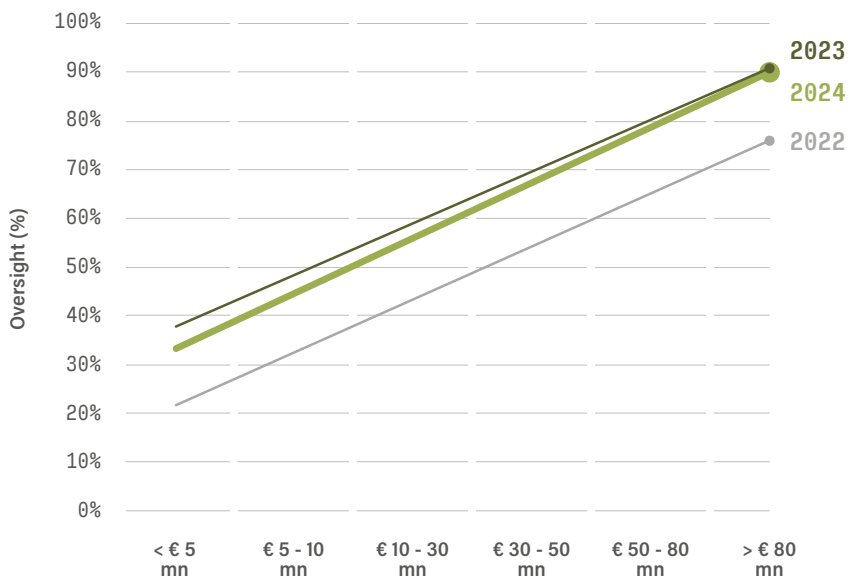
The lines shown represent the average oversight across various dimensions, such as the presence of a dedicated sustainability figure, emissions measurement, materiality analysis, reporting, product certifications, and process certifications. As company size increases, so does the adoption and oversight of these sustainability practices.

In 2024, while the overall trend remains stable, a small 3% decline is observed, particularly affecting smaller companies with revenues under €30 million.

The gap in sustainability oversight is most evident for smaller firms, but it narrows significantly for companies with revenues exceeding €80 million, where the differences in oversight become almost negligible.

In summary, as shown by the questionnaire results, while larger companies demonstrate robust oversight of sustainability issues, smaller and mid-sized firms seem to be facing greater difficulties in 2024[1].

The oversight trendline of the Italian supply chain



(1) TEHA elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain for years 2022-23-24.

TEXTILE AND CLOTHING MANUFACTURING COMPANIES SHOWS BETTER OVERSIGHT OF SUSTAINABILITY ISSUES, WHILE LEATHER GOODS LAG BEHIND

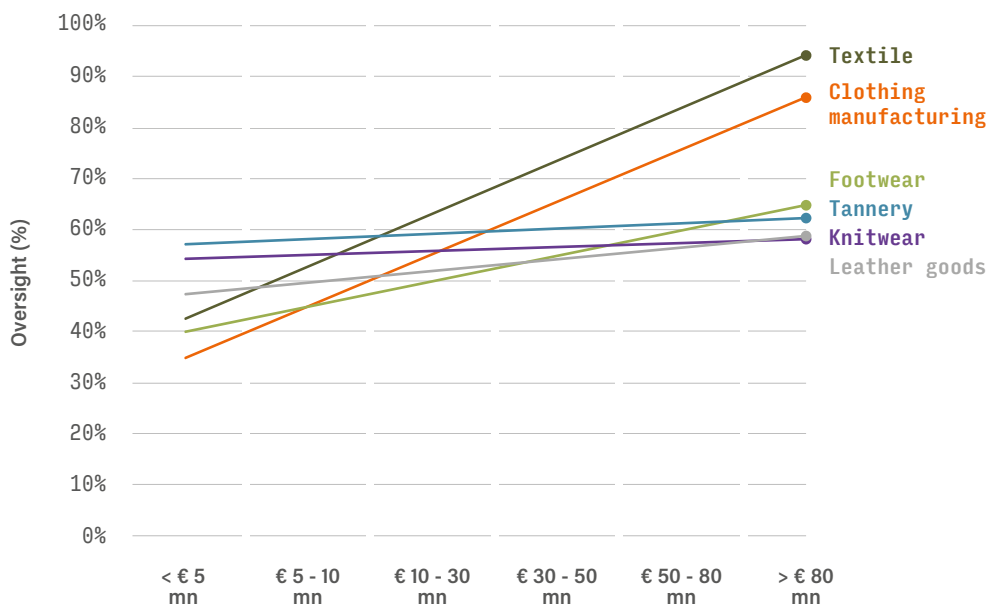
In 2024, textile and clothing manufacturing companies exhibit the strongest oversight of sustainability issues across the Italian supply chain. Their oversight improves steadily as company size increases.

In contrast, the leather segment (leather goods and tannery companies) consistently lags behind in terms of sustainability oversight, particularly among smaller firms. The same applies to knitwear and footwear, which also show weaker oversight in sustainability efforts, especially in the lower revenue brackets.

For companies with revenues exceeding €80 million, the gap between different segments—leather, footwear, tannery, and knitwear—narrows, indicating that larger firms are more likely to have established sustainability oversight mechanisms, regardless of their specific supply chain segment.

There is a significant gap in terms of oversight among companies with revenues exceeding €80 million, where the textile segment, along with clothing manufacturing, shows the strongest performance[1].

The oversight trendline of the Italian supply chain (divided per segment)



(1) TEHA elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain for years 2022-23-24.

COMPARED TO 2023, ENVIRONMENTAL OVERSIGHT ACROSS THE ITALIAN SUPPLY CHAIN DECLINED SLIGHTLY, DRIVEN BY SMALL COMPANIES

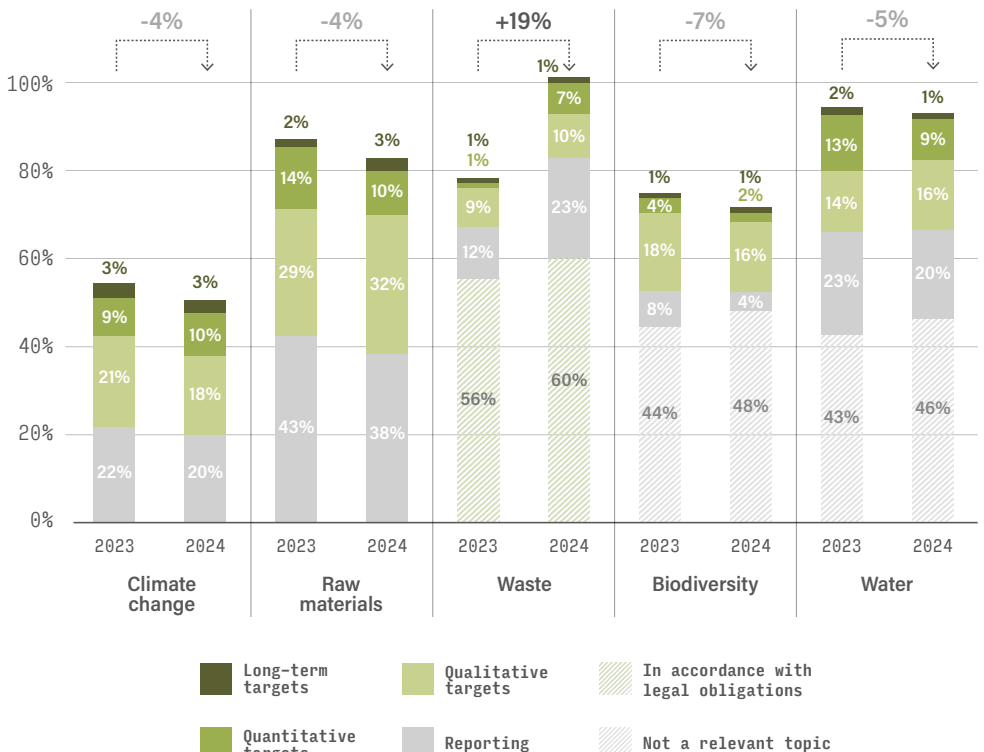
The oversight of environmental topics across the Italian supply chain has seen a slight decline in 2024 compared to 2023. Climate change, raw materials, biodiversity, and water management have all experienced reductions in oversight, with decreases ranging from -4% to -7%, particularly in relation to the setting of qualitative and quantitative targets.

Waste management is the only area showing improvement, with an increase of +19%, indicating that more companies are reporting and setting qualitative targets in this area.

The declines are largely driven by smaller companies with revenues under €30 million, which make up 76% of the sample, suggesting that these firms are struggling to maintain the same level of environmental oversight compared to previous years.

The declines in oversight are concentrated mainly in qualitative and quantitative target-setting, suggesting that while companies may still be meeting basic regulatory requirements, there is a growing gap in proactive goal-setting.

The greater oversight in waste management is due to the fact that Italian companies, driven by regulations, have heavily invested in this area in the past[1].



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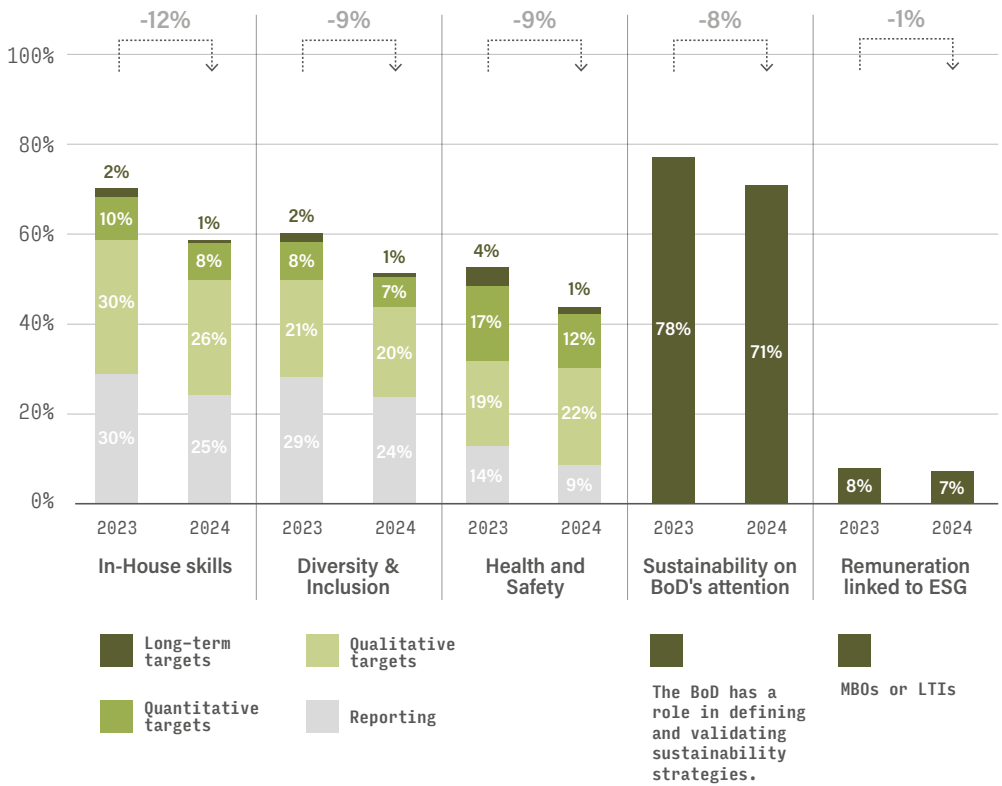
THE SAME APPLIES TO THE SOCIAL DIMENSION, WHERE THE OVERSIGHT DECLINE IS MORE EVIDENT

The oversight of social topics across the Italian supply chain shows a more significant decline compared to environmental aspects. The most critical area is skills development, which has seen a sharp drop of 12%, followed by diversity & inclusion and health & safety, both of which decreased by -9%.

In a challenging year from an economic perspective, like the last one, Boards of Directors have also reduced their focus on sustainability by -8%. This decline is particularly in areas like skills development, diversity, and health & safety are central to fostering a resilient workforce and ensuring long-term social sustainability.

However, it's worth noting that companies with remuneration systems linked to ESG performance have remained relatively stable, with only a slight -1% change[1].



(1) TEHA elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain for years 2023-24.

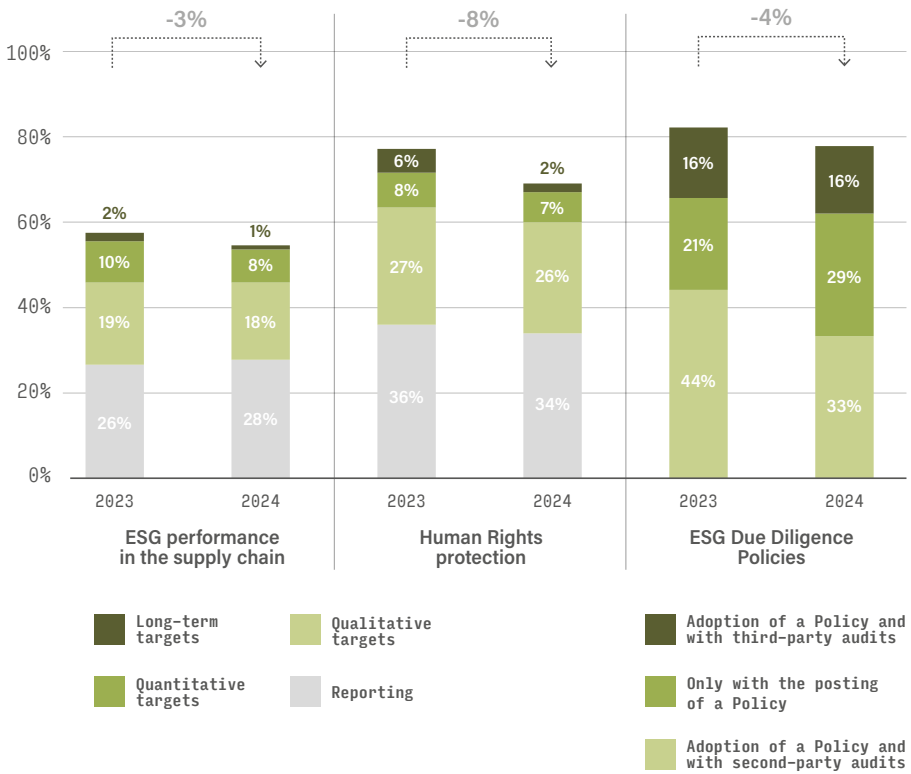
FINALLY, GOVERNANCE ISSUES CONFIRM THE NEGATIVE TREND IN OVERSIGHT AS WELL, PARTICULARLY REGARDING HUMAN RIGHTS PROTECTION

The oversight of governance topics within the Italian supply chain has also shown a decline.

The monitoring of ESG performance in the supply chain has decreased by 3% in 2024 compared to 2023, with fewer companies setting long-term, quantitative, or qualitative targets.

Human rights protection has seen a significant drop of 8%, indicating fewer companies are adopting comprehensive policies and establishing reporting mechanisms to ensure accountability.

Additionally, there has been a 4% decline in the adoption of ESG due diligence policies, particularly those involving third-party audits. Currently, 33% of companies still only post a policy without taking further steps to ensure its implementation or verification through external audits[1].



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NEARLY ALL COMPANIES WITH REVENUES > €80 MN HAVE EXPERIENCED INCREASED ATTENTION FROM BANKS ON SUSTAINABILITY PERFORMANCE

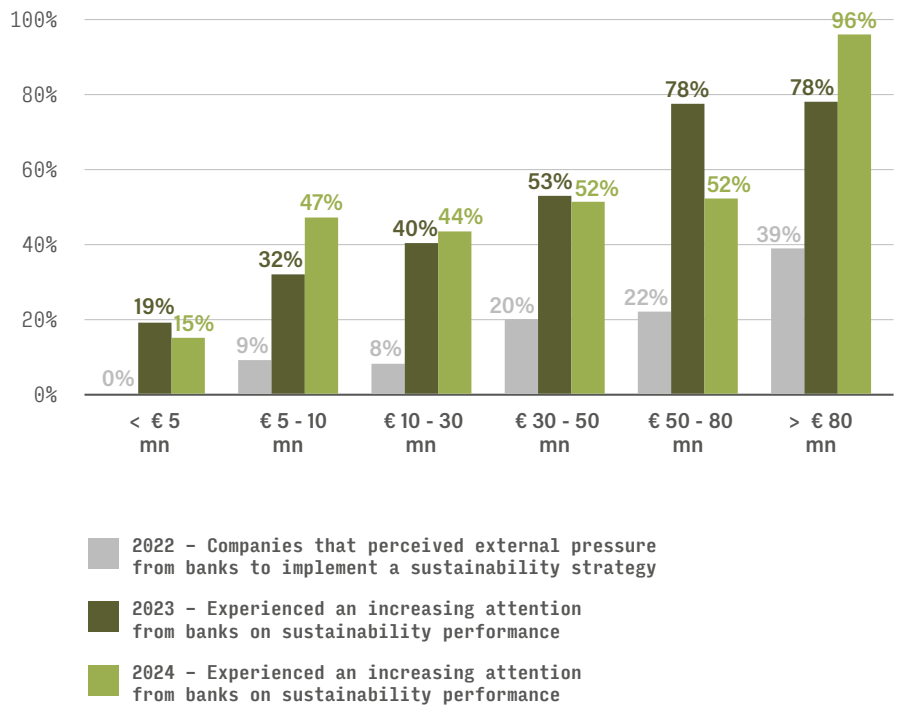
In 2024, 96% largest companies reported experiencing increased scrutiny from financial institutions.

This trend is not exclusive to the largest firms. Smaller companies, with revenues between €5 million and €50 million, have also experienced growing attention from banks, with figures ranging from 44% to 53% in 2024, showing a notable rise compared to 2023.

Overall, 70% of companies that have faced increased attention from banks have implemented a sustainability strategy, highlighting the direct influence of financial pressure on driving sustainability efforts[1].

70% **of companies that experienced increased attention from banks have implemented a sustainability strategy**

Companies that experienced an increasing attention from banks on sustainability performance



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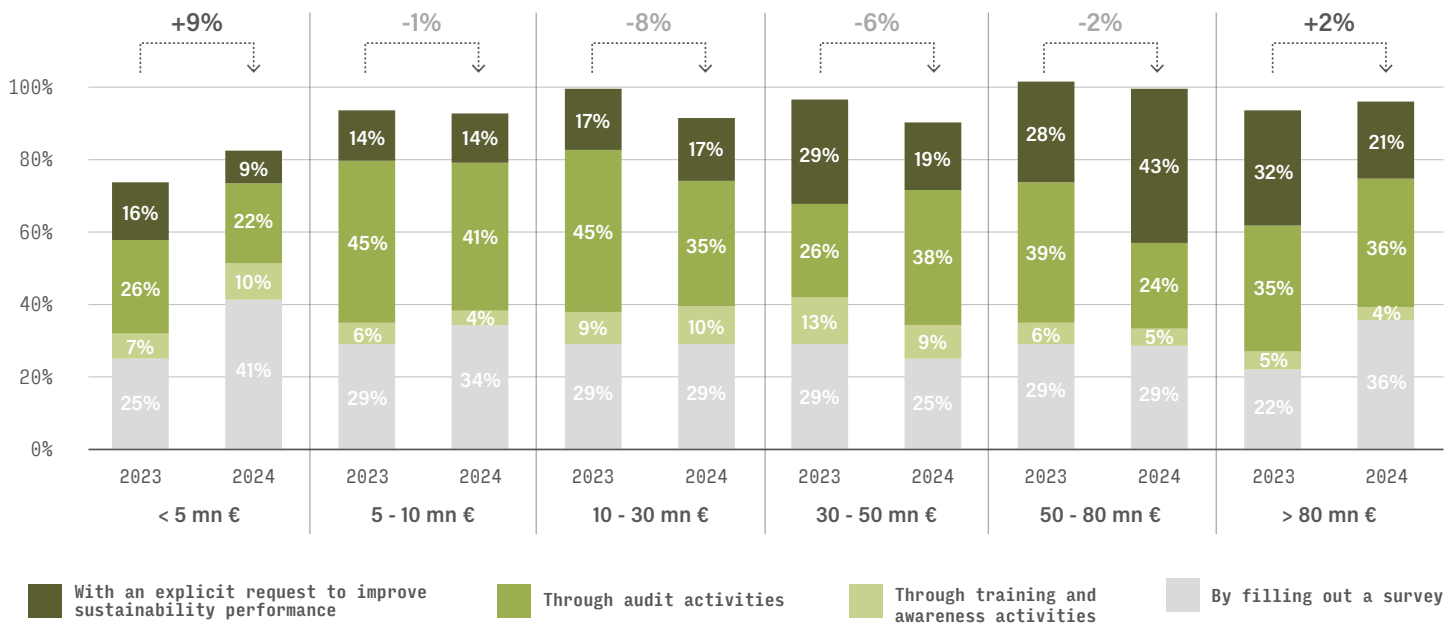
OVERALL, CLIENTS' PRESSURE ON SUPPLY CHAIN COMPANIES HAS DECREASED SLIGHTLY (WITH THE EXCEPTION OF THOSE < 5 MILLION)

Companies that experienced an increasing attention from clients on sustainability performance



(1) TEHA elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain for years 2023-24.

LACK OF INTERNAL COMPETENCIES SEEMS TO BE THE MAIN CAUSE OF THE UNATTENDED OVERSIGHT OF SUSTAINABILITY ISSUES

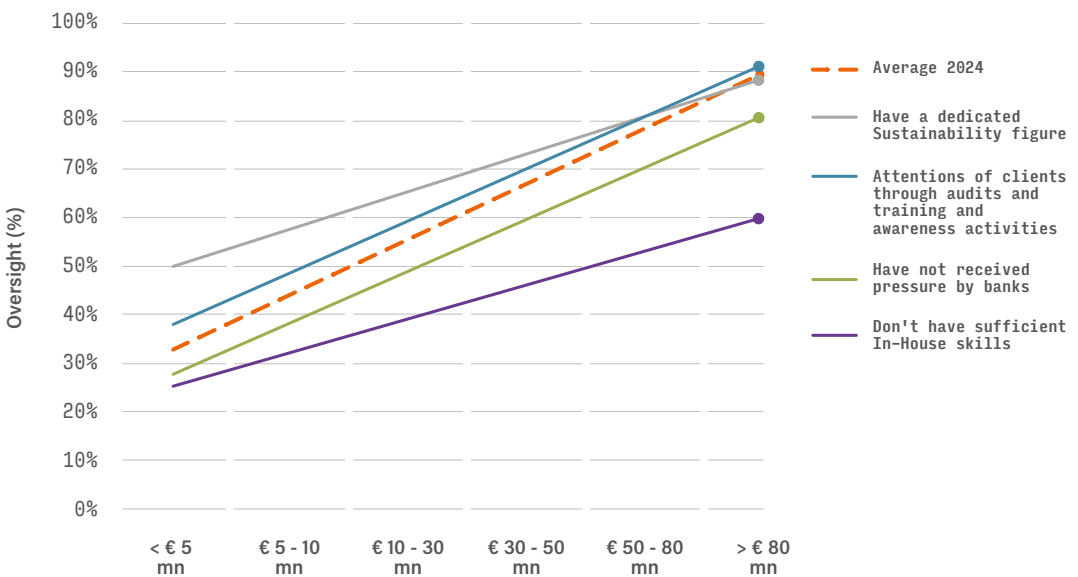
In 2024, the lack of in-house competencies remains the primary reason for insufficient sustainability oversight across the supply chain. Companies without sufficient internal skills or a figure tend to have weaker oversight, as evidenced by the lowest trendline (purple trendline), representing firms that lack internal capabilities.

In contrast, companies with a dedicated figure responsible for sustainability demonstrate significantly better oversight, as indicated by the highest trendline (grey trendline).

Client-driven initiatives, such as audits, training, and awareness programs, also contribute to improved oversight, with companies benefiting from these activities (blue trendline) showing steady progress.

However, where banks do not exert pressure, as seen in the orange trendline, oversight tends to be weaker, particularly in smaller companies. This underlines the importance of external financial pressures in motivating firms to prioritize sustainability[1].

The oversight trendlines of the Italian supply chain



(1) TEHA elaboration on proprietary data collected through the ESG Assessment on the Italian fashion supply chain.

3.

PROPOSALS FOR A EUROPEAN JUST FASHION TRANSITION 2030

REIMAGINE FASHION INDUSTRY

PROPOSALS FOR A EUROPEAN JUST FASHION TRANSITION 2030

TO INSTITUTIONS

I. PROMPTLY CLOSE THE REGULATORY GAP

#Europe #Long-term decisions

II. SIMPLIFY FINANCING FOR SMEs

#Bureaucratic burdens for SMEs #Sustainable investments #Access to credit

TO INDUSTRY PLAYERS

III. BOOST COMPETENCIES AND R&D

#Capacity building #Innovation #Scalable solutions

IV. DEVELOP FASHION NATIONAL INDUSTRIAL PLANS

#Sector sustainability strategic plan #Cost of Sustainability into pricing #Needs for funding

V. CONCENTRATE TO INCREASE COMPETITIVENESS

#SMEs #Productivity and investment capacity

I.
PROMPTLY CLOSE THE REGULATORY GAP

WHY

Five years after the launch of the European Green Deal and almost ten years after the Paris Agreements, the regulatory framework in which companies must operate is still unclear, and this does not encourage investment decisions; rather, it creates a context of uncertainty that inhibits them.

HOW

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

WHO

National Governments and European Commission, enabled by companies which give them all the elements needed to close the gap.

II.
SIMPLIFY FINANCING FOR SMEs

WHY

Small businesses have lower access to credit, and their financing does not have a Sustainability rating that would facilitate its recognition by banks by calculating alignment with the European Taxonomy for Sustainable Finance.

HOW

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

WHO

EU institutions to develop and enforce regulations. Banks to apply such regulations.

III.
BOOST COMPETENCIES AND R&D

WHY

Competences and technological development play a key role in identifying and making available on a large-scale solutions to reduce the use of raw materials, through textile fiber recycling too, and to decarbonize the sector.

HOW

Build and spread national competence and capacity centers, involving universities and the research community to test scalable solutions. Develop capacity building initiatives to spread among SMEs all the skills needed for the transition and build a transition proof workforce. This can also be the starting point to create a platform to exchange best practices along value chains.

WHO

Companies in collaboration with Universities and research centers.

IV.
DEVELOP FASHION NATIONAL INDUSTRIAL PLANS

WHY

The industry level is the minimum size to effectively address the issue, ensuring the needed collaboration across all stages of the value chain in order to find and disseminate pre-competitive effective and scalable solutions, both at the environmental and social level.

HOW

Develop a sector strategic plan to identify ways to integrate the cost of sustainability into prices' structure - also to eradicate caporalisation, as well as to share methods, timelines, and the need for public and private funding. The strategic plan should include sector positioning regarding other industries impacting fashion such as the energy mix and the industry's dependence on it, single capital market, citizen involvement for successful transition, actions to counteract overconsumption and explain the value of sustainable purchasing, etc.

WHO

Companies at each stage of the value chain.

V.
CONCENTRATE TO INCREASE COMPETITIVENESS

WHY

Small companies play a key role in the transition but are often characterized by margins that are too low to invest in the long term, a high level of debt, limited access to credit, and a lack of expertise in ESG matters.

HOW

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

WHO

Governments to favour the conditions, companies to overcome short-sightedness.

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