

ESG Now Podcast

“Textile Waste and Travelling Skirts ”

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Gabriela de la Serna

Hello and welcome to the weekly edition of ESG Now, the show that explores how the environment, our society and corporate governance affects and are affected by our economy. I'm Gabriela de la Serna, one of the shows brand new co-hosts. It's a pleasure to step into the virtual recording studio and give Mike and Bentley a little break from the harsh and beautiful limelight. Now for today's show, for my glamorous debut, we're going to be talking about waste. And while this might not sound very glamorous, we'll be talking about waste in the fashion industry, how big the problem is, what brands and regulators are doing to tackle the problem and what this could all mean for investors. So let's jump right in.

For those fashion lovers out there, or indeed lovers of fashion lovers, you know September is an important month for the fashion industry. It's when fashion week takes place in some of the most glamorous cities around the world, and the new spring summer designs are displayed on the runways. September is also the month when Vogue, the fashion magazine, or really the fashion Bible, releases their September issue, which then sets the tone for the design trends to come in the following year. You get the idea, but for today's episode, we'll be leaving the glamorous side and focus on the less shiny side of the industry. Historically, the fashion industry has had two key seasons, autumn/winter, and spring/summer. But with the proliferation of fast fashion brands, we're living in a reality where the average high street brand releases 52 micro seasons per year on average. This not only encourages over consumption, but also makes it really difficult for brands to manage their inventories as they constantly need to be clearing out old collections to make space for new ones.

This means that the more collections a brand puts out, the more unsold stock is likely to be left behind, most of it ending up in landfills as waste. Just in the EU alone, 5 million tons of clothing are discarded each year, which to put into perspective is around 12 kilograms of waste per person. That's like a pile of 80 T-shirts. Fashion brands, some more than others, have tried to reduce their footprint by launching recycling programs with the hope of reducing the amount of garments that end up in landfills. But does this work, let's take for instance the example of the mysterious traveling skirt that was donated by a customer to one of H&M's London in-store recycling containers. The idea of these recycling containers is to give customers an option to drop off their unwanted clothing, whether or not it originally came from H&M, with the promise of the brand reusing and recycling them.

But a recent investigation by the Changing Markets Foundation, an industry activist group decided to track a few pieces of clothing, including our now famous skirt, to find out what happens to these items. As it turned out, the skirt ended up traveling 24,800 kilometers all the way from London to a waste ground in Mali and not to a recycling facility. But H&M isn't alone here. Other brands like Zara, C&A and Primark were part of the same investigation by Changing Markets Foundation and clothing found its way to West Africa or India rather than ending up in some kind of utopia of recycled goods. Now, when stories like this make the news, it isn't a great look for a fashion brand. There's definitely a reputational hit, but is this a financial or operational problem for the industry, one that it needs to solve? I decided to talk to my colleague Liz Houston, who covers the retail sector from our London office to get her thoughts on this sticky situation brands are finding themselves in. I wanted to start by asking why brands find it so hard to recycle clothes in the first place?

Liz Houston:

Two problems here. The first, the mountain of clothing waste that we produce in developed markets, most of that is incinerated or put into landfill directly. And then the second problem is the shipping of textile waste to developing markets disguised as intended for reuse as the EU would put it. These are typically items that are donated or dropped off for recycling. This used to make sense, now it doesn't. Once upon a time, volumes were much, much lower, quality was higher, and this was a reasonable trade. Today we have way too much supply of unsuitable products, and this means that much of it is dumped or burned leading to environmental or social cost. This has been a known problem for a while, but interestingly up until now we haven't seen much direct criticism of companies. When I look back at our data that tracks allegations against apparel retailers in our coverage over the last 10 years, the environmental related allegations are linked to supply chains: so this is deforestation linked to leather or production of viscose or chemical pollution.

I think that's because it's been easier to draw a line of blame for supply chains to retailers than for what consumers are doing with their unwanted items back to retailers. What's different now is that when the retailer becomes a direct part of the waste collection process, it's easier to link that negative impact back to the retailer. At this point, you might be slightly confused. You might be thinking, "But I buy recycled cotton trousers, I have a recycled polyester gym top." And if you are buying recycled clothing today, if it's cotton, it's pre-consumer, that's made from waste in the manufacturing stage, or if it's polyester, it's coming from plastic bottles, which isn't great because that should be a closed loop in itself. There are multiple reasons why it's difficult to turn clothing back into new clothing.

The first is the challenge of logistics. All of this stuff is spread across consumers. You then have to go through the practical challenges of gathering it all back together and getting it into one location. You have to put effort into sorting it. Some of it will be suitable for reuse. Some of it will have to only go into recycling. And then once you've done that to the goods that you want to turn into a new material, you have to figure out what they're made of and what recycling processes you can use to create a new

fiber. Let's think about the shirt that you are wearing right now. It's probably cotton. May also have some polyester in it. It may have some lovely stitching. If you're feeling fancy, it's got sequins, it's got buttons, it may have a zip. All of these things need to be separated, and these difficulties add up to cost, which historically made it uneconomic to recycle used clothing.

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Who bears the cost? That's an excellent question. The EU currently estimates that the cost of end of life processing of clothing is around 12 cents of Euro per item, but it also warns that this cost isn't currently internalized in the current price of goods. In a way, it is society and the planet bearing the cost of these externalities.

But as Liz told me, the EU is one of the jurisdictions that is looking to limit these externalities and reduce textile waste through regulation. And that may be because the contribution of textile consumption to the EU's impact on the environment and climate change is meaningful coming in fourth, behind only food, housing and mobility. What is the bloc doing about this challenge? A good place to start is the EU Sustainable and Circular Textile Strategy. It falls under the umbrella of commitments of the European Green Deal, which essentially is a set of policy initiative that's trying to put the EU on track to climate neutrality by 2050.

And the EU Sustainable and Circular Textile Strategy focuses specifically on the production and consumption of textiles, aiming to create a greener and more competitive sector. The EU commission's goal by 2030 is, and I quote here, "That all textile products placed on the EU market are durable, repairable, and recyclable to a great extent made of recycled fibers, free of hazardous substances and produced in respect of social rights and the environment." Sounds like a mouthful, right?

Essentially, the EU is trying to push out the concept of fast fashion and instead promote high quality and more durable textiles for consumers. And perhaps most importantly, it wants brands to take accountability for their products along the value chain. For instance, as part of this push, we might see a new "digital product passport" to be implemented by 2030, which would show a product sustainability credentials with the idea of helping consumers make more sustainable choices. So next time you're looking for a sustainable cotton hoodie, you'll have more information beyond price point and color to evaluate from. But as we know with more information comes more complexity. This is certainly no easy task, so I asked Liz to tell us how feasible this seems from an implementation perspective for the EU and what are the quick wins and bigger challenges given how the industry currently operates?

Liz Houston

It's a big ask. Within seven years, we want to move to a largely circular model with completely different supply chains, brand new recycling technologies not yet tested at scale. And by the way, we want it with no negative environmental or social impacts. It's a great overarching strategy, but the devil will be in the detail. It's not yet fully clear how this strategy is going to be implemented and what the exact requirements for retailers will be. We know some elements. We know that textile waste will be collected separately from 2025 onwards, and we have some proposals. We have proposals for extended producer responsibility in textiles. We have proposals for regulation of those disguised textile waste shipments, and we have proposals for a ban on the destruction of unsold clothing. But there are other elements of the strategy that are still quite hard to pin down, even conceptually, things like the term long-lived.

What does this mean? Is this durable? Is this timeless? Or is it something a bit more nuanced about changing the way consumers value their clothes? There will inevitably be some additional costs for retailers and brands, but in theory it should hopefully lead to a level playing field. Those producers that want to do the right thing will not be at a cost disadvantage to those that would prefer to cut corners. By the way, I should mention that it's not just the EU that we're seeing emerging regulation. We've also seen a proposal in California to introduce extended producer responsibility for textiles. I think it's a case of watching this space. It feels like there's more to come.

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It sounds like making the shift both from a consumer behavior and operational perspective may be challenging. And coming back to the case of the mysterious traveling skirt that ended up on the other side of the world, it seems like brands are still going through growing pains as they try to embrace new circular economy programs. And paradoxically, as we saw for H&M, brands that put themselves out there that publicize their sustainability efforts or intentions can find themselves under greater scrutiny to demonstrate that these programs are actually taking place. But in the long-term, the more progressive efforts may help companies to weather new regulations better compared with companies that are not saying anything about their sustainability efforts and are really trying to fly more under the radar. I asked Liz to give us an overview of what companies are already doing in preparation for this ambitious shift and what initiatives are already being trialed.

Liz Houston

We have seen interest in solving this problem primarily so far from the big European companies. That's probably not a surprise given the regulatory landscape. In terms of that waste collection problem, H&M has invested in a joint venture called Looper Textile, trying to solve some of the issues around a collection and sorting at scale. We've also seen Inditex do something similar in conjunction with Caritas, their partner in Spain. They are working on building out that collection network in order to benefit from the separate collection of textiles from 2025.

And then when we think about the new material technology startups, how do you then create a new fiber out of that post-consumer waste feed stock? There's a few different companies that are in this space that have seen either offers of purchases from big retailers or equity investments. There's Infinited Fiber, which is a European post-consumer waste as a feedstock, cellulose manufacturer that's got deals with Inditex investments from H&M. Inditex has invested in a company called Circ. And then we have a company called Evrnu, which also does recycled fibers having deals with Adidas, Levi's, Target, and Inditex. Again, the caveat being that these are all quite small scale at the moment.

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These does show that things are moving behind the scenes even if for now this is happening with baby steps. But companies should be prepared for much higher expectations from some regulators and customers in the way they manage their externalities both up and downstream. But how exactly could these expectations impact fashion brands in terms of their operations or bottom line?

Well, Liz told me that there's still a lot of uncertainty and we will know more as the EU provides more clarity on any legislation that accompanies its sustainable textile strategy. Earlier I mentioned that the EU estimates the cost of processing a clothing item at the end of its life at 12 cents. If this cost, and just to caveat, this is a ballpark number that may be amended by the EU, but if it is added as a levy onto retailers, this could really make an impact on brands producing high volume with lower product margins.

If you're a brand selling cashmere sweaters for hundreds of euros, the kind I stare at from the other side of a high street store window, the levy will be a small percentage of your margin. Whereas for the likes of Primark or Boohoo that may price their average T-shirts at five euros, this levy could eat up a bigger chunk of their margin.

And also in terms of the textiles themselves, we'll need to wait and see whether the EU gets more specific on when they expect retailers to start designing for longevity. If they get more prescriptive on the materials that brands should and should not use, we may find market participants that, for example, are in the business of selling hardwearing cotton T-shirts to be better positioned than those selling glittery dresses that start falling to pieces the moment you take it out of the store. In any case, the road ahead looks bumpy. And at least for me, I know that in the meantime, I will now be thinking twice before throwing away that old hoodie that I only managed to wear twice.

And that is it for this week. A massive thanks to Liz for her take on the news with an ESG twist. And thanks to you for tuning in and sticking around. Don't forget to rate and review us wherever you're listening to this. And if you enjoy listening to us every Friday, go ahead and click the subscribe button. Thanks again, and we'll catch you next week.

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