

# Fair Thread: Policy Recommendations for a Sustainable Textile Industry

## White Paper

# SMALL BUT PERFECT



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This paper has been coordinated by May Hylander, Tara Scally, Marta Garda on behalf of the Fair Trade Advocacy Office and by Delphine Willott on behalf of Fashion Revolution.

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# Introduction

Over the last decades, the textile and garment sector<sup>1</sup> has become a globalised industry with significant changes in terms of pace and supply chain complexity. From production close to home, mainly consisting of two collections per year – summer and winter – most clothes are now produced in low-income countries, and we see as much as 50 collections released yearly by the same fashion brand on the market. Garment supply chains weave a complex web of parties involved: from the cotton field, to the ginner, spinner, weaver and garment factory. All these steps can be taking place in different countries. Due to this complexity, traceability is difficult to achieve and consumers who want to make sustainable choices face difficulty in finding the right information. For instance, only 48%<sup>2</sup> of garment companies<sup>3</sup> share what factories they source from at tier 1 level, and even less (12%) provide information on raw material suppliers. Additionally, 96% of brands do not disclose the number of garment workers that are paid a living wage in their supply chain. With such a lack of transparency, garment brands hold all the power while this level of opacity allows human rights and environmental abuses to thrive without remediation. Power imbalances are not limited to the “brand and consumer relationship” but are also common between brands and their suppliers.

Garment brands hold buying power over their suppliers. If manufacturers do not agree to specific buying terms, then the brand can choose to switch suppliers at any moment<sup>4</sup>. Brands and retailers

use this buying power to unilaterally enforce unfavourable purchasing terms. These unfair trading practices (UTPs) include buying at prices below the cost of production, unilateral changes to agreed contracts, late changes in lead times, and cancelling (semi-)produced garments. Afraid to lose future orders, manufacturers tend to not address these (often) illegal practices and absorb the losses instead. This means the factory does not have enough financial space to invest in safe working conditions, sustainable production methods or living wages for its workers.

**At present, the vast majority of fashion brands cannot prove that they are paying their workers a living wage.<sup>5</sup>**

Low wages force people to work excessive overtime to make a living. Working excessive hours in hazardous situations can lead to hand numbness, back problems and eye strain when sewing.<sup>6</sup> Respiratory issues, skin disease, burns and even death can occur due to working with toxic chemicals.<sup>7</sup> Some workers are forced to skip meals because they cannot afford food for their families.<sup>8</sup>

Voluntary initiatives by the industry, such as commercial audits or sustainability platforms, have not been able to fix problems like power imbalances, lack of transparency and dangerously low wages. Companies that do want to take

responsibility and produce sustainably are faced with unfair competition from brands that do not consider the environment or human rights in their supply chain.

## Brands hold all the power while this level of opacity allows human rights and environmental abuses to thrive without remediation

Small and Medium-sized Enterprises (SMEs) are particularly exposed to these challenges: as described in detail in the SMEs Needs Analysis in the Annex, upcoming EU regulations will have a strong impact on fashion SMEs. In order to support European circular and sustainable SMEs in fashion, customised policies are necessary, as well as a customised approach in the implementation of regulations. As written in the Annex, customised approach could be related to availability of dedicated incentives, adapted timing of implementation depending on the company size, availability of dedicated training for reskilling and upskilling, availability of specific toolkits dedicated to SMEs to reduce complexity.

Acknowledging the need to regulate the industry, in March 2022 the European Commission presented an EU Strategy for Sustainable and Circular Textiles<sup>9</sup>, a comprehensive document showing

ambition that ‘by 2030 textile products placed on the EU market are long-lived and recyclable, to a great extent made of recycled fibres, free of hazardous substances and produced in respect of social rights and the environment’.<sup>10</sup> However, the EU strategy falls short on the social aspect, particularly on improving working conditions and wages for textile workers, and it does not address the unfair trading practices that are a root cause to many of the human rights abuses in the sector. When it comes to the social dimension, the document mainly refers to the proposed Corporate Sustainability Due Diligence Directive (CSDDD).

All of us – from civil society, to Academia and policy makers, businesses, investors and consumers – have an important role to play in the shift towards a circular and sustainable fashion industry, one that is clean, safe, fair, transparent and accountable.

Under this directive, big companies will have an obligation to conduct human rights and environmental due diligence, and to take corrective measures to address the adverse impact. However, under the current proposal by the European Commission, only a small proportion of the textile and garment sector would fall under the scope of the CSDDD. For instance, only around 5% of the companies participating in the Dutch Responsible Business Conduct (RBC) Agreement on Sustainable Garments and Textiles (AGT) would be covered.<sup>11</sup> Fashion is not a particularly concentrated industry so if the scope of the CSDDD is not expanded to cover all companies regardless of size, the majority of garment workers would not benefit from the human rights protection the Directive is designed to provide.<sup>12</sup> Numerous civil society organisations support a European Citizens<sup>13</sup> that calls on specific living wage due diligence legislation at EU level for garment workers worldwide. This paper will give an overview of the biggest challenges in the garment sector related to business models, transparency, wages, trading practices, due diligence and public procurement. For each topic, policy recommendations will be given.

Some of the policy recommendations, more precisely the ones related to traceability and transparency, are especially relevant for fashion SMEs: throughout the document specific highlights on customised approach in the implementation of policies and regulations are indicated.

### **Disclaimer on content selection**

This document by no means aims to be exhaustive. The challenges in achieving social sustainability, such as living wages and incomes, in the textile sector are vast and complex. This white paper aims to present the current debate and provide a number of policy recommendations that can be achieved in the short term.

# Sustainable business models

## Introduction

The structure of the garment industry leads to a race to the bottom. Brands compete to offer consumers with the latest trends for the lowest price<sup>14</sup>, and those clothes are worn only a few times before they are disposed of. Due to this race to the bottom, the quality of garments has decreased, making them often unwearable second hand and harder to recycle. Who pays the price for these price drops? The workers. Wages are not enough to make a living and sometimes people even go into debt while working in the fashion industry. At the same time, shoppers go into debt to purchase these clothes. Despite this, executive pay is skyrocketing and fashion executives profit from this power imbalance. Meanwhile, fashion brands are focusing on managing their environmental impacts by using innovative materials with a lower impact on our planet<sup>15</sup> without addressing a key factor: without transparency on brands production volumes, a business cannot claim to operate sustainably and within planetary boundaries unless they can be held accountable for the amount of clothes they produce. With shorter turnarounds and an exponentially growing number of options, major brands and retailers rely on a fast fashion business model leading to an extremely competitive environment where SMEs struggle to survive.

## Biggest challenges

### Inequality

It takes just four days for a CEO from one of the top five global fashion brands to earn what a Bangladeshi garment worker will earn in their lifetime.<sup>16</sup>

It would cost \$2.2 billion a year to increase the wages of all 2.5 million Vietnamese garment workers to a living wage. This is about a third of the amount paid out to wealthy shareholders by the top 5 companies in the garment sector in 2016.<sup>17</sup>

### Footprint

About 5.8 million tonnes of textiles are discarded every year in the EU, approximately 11 kg per person<sup>18</sup>, and every second somewhere in the world a truckload of textiles is landfilled or incinerated.<sup>19</sup> Because of their low quality, only 1% of collected garments can be worn again<sup>20</sup>, and current textile collection rates (for re-use or recycling) in the EU are estimated to be as low as 20-25%.<sup>21</sup> For these garments to be made, huge amounts of water and chemicals are needed, affecting the environment and the health of workers and local communities.

## Legislation

There is no legislation to tackle inequality or lack of redistribution, and companies are getting tax cuts to push for growth. Additionally, there is no legislation holding brands to account to limit the amount of clothes they produce, but the EU has introduced an Extended Producer Responsibility scheme within its EU Strategy for Sustainable and Circular Textiles. This would imply that brands are held accountable for the end-of-life of the clothes they produce.

## Policy recommendations

**Higher taxation and a pay ratio for fashion executives:** As some of the richest individuals on the planet<sup>22</sup> are fashion CEOs, it is essential for brands and retailers to be transparent on executive pay. Unfortunately, incoming legislative efforts such as the EU's proposed Corporate Sustainability Due Diligence Directive (CSDD) do not include any obligation to link directors' pay to sustainability criteria, and there are no strict sustainability expertise requirements at executive level. Given the prevalence of income inequality within the fashion industry, between fashion CEOs and average employees as well as with garment workers, the EU should introduce taxation on wealth to ensure equal distribution across society. This can be achieved through taxes on net wealth, property, capital gains, and inheritance.<sup>23</sup> In addition, following the UK Green Party's call for legislation on pay ratio<sup>24</sup>, the EU should introduce a policy on pay ratio between executives pay and lowest workers' pay in any company.

**Taxing overproduction:** In 2019, a fast fashion tax was introduced in the UK by the Environmental Audit Committee (EAC) as part of the Fixing Fashion report<sup>25</sup> which aimed to address the country's throwaway culture. In fact, the report revealed that UK consumers buy more new clothes than any other European country, twice as many as in Germany and Italy. The report suggested introducing a one penny per garment tax for fashion producers to tackle overproduction. While this proposal was rejected, it is vital for the European Union to introduce taxation mechanisms to slow down the rate of garment production and penalise brands and



# Traceability and transparency

## Introduction

retailers that are fuelling this increase in overconsumption and ultimately, throwaway culture. This can only be achieved with greater transparency on the number of garments produced by brands and retailers to curb the level of overproduction.

**Holding brands accountable for the end-of-life of their clothes:** In addition, the fashion industry contributes to billions of tonnes of waste a year. In 2020, France was the first country in Europe to adopt an anti-waste law and ban the destruction of unsold non-food products. Instead of sending products to landfill or incinerating unsold goods, French companies will now have to reuse, donate or recycle their unsold products.<sup>26</sup> The EU is introducing Extended Producer Responsibility schemes through a revision of the Waste Framework Directive, one of the main proposals in its EU Strategy for Sustainable and Circular Textiles – this involves setting a fee for brands and retailers for the costs associated with end-of-life management of their products rather than municipalities bearing the costs, and by extension, citizens, as is currently the case. This mechanism is key to implement the ‘polluter pays principle’, enshrined in Article 191(2) of the Treaty on the Functioning of the European Union.<sup>27</sup>

The production levels of SMEs are inherently smaller compared to major brands and retailers. Implementing taxation based on quantity of products produced and introducing extended producer responsibility mechanisms would level the playing field as brands with fast fashion models would be held accountable for their significantly greater impacts on people and planet compared to SMEs.

Only 48% of the 250 brands and retailers reviewed as part of the Fashion Transparency Index publicly disclose their tier-1 suppliers list, and even fewer (32%) disclose their processing facilities.<sup>28</sup>

This makes it difficult for consumers wishing to buy and wear responsibly, and for workers’ representatives wanting to denounce and remediate problems.<sup>29</sup> Improving traceability and transparency will ensure that all stakeholders, whether garment workers and their representatives, citizens or civil society, have the necessary information to push for systemic change. Moreover, the Needs Analysis included in the Annex highlights that fashion SMEs wishing to increase their sustainability and circularity performance can leverage on the creation of a level playing field in the market, given by the implementation of a common traceability and transparency standard.<sup>30</sup>

## Biggest challenges

### Complex supply chains

The garment industry is known for its complex and frequently changing supply chains, as a result of the transformation the textile and garment sector has undergone over the last decades from production close to home to relocation to low-income countries. Garment brands themselves might today be unfamiliar with the companies involved beyond the supplier they order their products from. It can be especially difficult for smaller brands to get an overview of all suppliers involved in their supply chain.<sup>31</sup>

### Company reluctance

Many companies, especially major brands and retailers, are reluctant to share information on their production locations. One argument often brought forward is that this would represent a competitive risk. However, no evidence has been provided to show that brands are indeed more vulnerable to competition when sharing production locations.<sup>32</sup>

### High costs of traceability and transparency

As highlighted in the UNECE Recommendation n.46<sup>33</sup> “the implementation of traceability and transparency requires substantial investments in systems and technologies for data entry, product labelling, and for performing various levels of verification of processes, products, parts and components at all stages of the value chain”. Traceability can be a costly activity and it could put enterprises “on an unequal footing depending upon their size, available resources and human capacity”.

### Lack of common traceability and transparency standard

The need for a common traceability and transparency standard and the need to substantiate sustainability claims with concrete data were highlighted as priority needs during the focus groups with SMEs carried out in the initial phase of the Small but Perfect project<sup>34</sup> (more in the Annex).

## Legislation

### Corporate Sustainability Reporting Directive

As a result of the implementation of the CSDDD, companies will need to report on their due diligence steps according to the Corporate Sustainability Reporting Directive (CSRD), which will also include sector specific reporting requirements for textile companies. This will ensure greater transparency at company level on human rights and environmental information across fashion supply chains based on public disclosure.

### Digital product passport

The digital product passport (DPP) was presented by the European Commission in March 2022 as part of the proposed Regulation for Ecodesign<sup>35</sup>, falling under the umbrella of the EU textile strategy. The DPP is meant as a tool for increased traceability and transparency of sustainability information of the product it accompanies. However, due to the adoption of the Commission's proposal for a Corporate Sustainability Due Diligence Directive (CSDDD) during its preparation, the Commission decided

to exclude social sustainability from the information requirements of the DPP, and to limit its scope to the product's environmental impact. If the EU does not use the digital product passport to its full potential - meaning it should have information requirements on both environmental and social sustainability of products, and these information should be publicly available – it will be a huge missed opportunity for the overall EU objective of making the industry more circular and sustainable. Increased traceability and transparency, and increased policy coherence are also two clear needs of sustainable and circular fashion SMEs (more in the Annex).

### **Green claims**

The 'initiative to substantiate green claims' was announced in the Circular Economy Action Plan for 2021 but has been consecutively delayed. Through this initiative the Commission wishes to tackle proliferation of self-declaratory and often unreliable sustainability labels and greenwashing by requiring companies making 'green claims' to substantiate these against a standard methodology that assesses their actual impact on the environment. Allegedly, the Commission will propose that companies substantiate their environmental claims through Life Cycle Assessments (LCA) and by using Product and Organisation Environmental Footprint (POEF) methods. However, the use of LCA and POEF methodologies raises concerns over their effectiveness by rendering limited and non-holistic pictures of a products' impact.<sup>36</sup> For instance, despite how highly toxic chemicals, such as PFAS, continue to play a major role in the production of

textiles, the PEF method does not fully capture toxicity related to direct human exposure through the whole life cycle of a garment, including worker's exposure through manufacturing, use and waste treatment.<sup>37</sup> Similarly, LCA studies tell us nothing about the social conditions in which a specific product was produced (for example, whether workers received a living wage).<sup>38</sup>

### **Consumer empowerment**

The 'Proposal for a Directive on empowering consumers for the green transition' was presented by the European Commission in March 2022. Similar to the green claims initiative, this Directive aims at restricting the numerous non-reliable environmental claims attached to products sold on the EU market, by introducing a requirement to use sustainability labels and certification schemes. This means that to make an 'environmental claim', the product must contain a sustainability label/comply with a certification scheme that meet the requirements set out by the Directive.

It is important to note that both these initiatives focus mainly on environmental claims, with no clear wording on social sustainability and social labels and standards. Therefore, it is still uncertain whether social sustainability claims will fall into the scope of these Directives.

## Policy recommendations

**Public database:** the EU should facilitate the creation of a public database as a tool to support the requirements of the CSRD, where supply chains of garment brands can be viewed. The database should include production locations of raw fabrics, spinning mills, production sights and all other stages in the manufacturing process. Information should be shared on the locations, wages, working conditions, chemicals used in production, energy and water consumption, waste production and existence of trade unions, regularly updated to reflect the current state of business and highlight the percentage of suppliers covered. Special attention should be given to home-based workers to protect their safety and privacy. Sanctions should be included for non-disclosure. Opensource suppliers lists already exist on platforms such as Open Supply Hub<sup>39</sup>, but it is paramount that disclosure requirements are made mandatory at EU level to make such platforms fit for purpose.

**Digital product passport:** the passport should be connected to the CSDDD and used as a tool to provide information on the human rights and environmental due diligence (HREDD) steps undertaken and reported by companies. For the EU, this would mean creating coherent policies and informing rightsholders as well as consumers in a meaningful way. The DPP should be publicly accessible and designed in a way that different stakeholders can add information, thereby making third party verification possible. To be truly effective as a transparency and traceability tool, the passport should at least provide the following information:

- Production location from every step of the supply chain
- Country of origin of the product, and country specific information relating to human rights (such as core ILO conventions ratified by that country etc.)
- Wage calculations and information on living income of producers
- Audits, complaints and other reporting information
- Purchasing practices of brands, such as lead times, price breakdown and terms of payment
- Information on existence of trade unions at the factory.

**Common traceability and transparency standard:** the UNECE policy recommendation n.46 gives guidelines on how to enhance value chains traceability and transparency in the garment and footwear sector. In particular, it recommends that governments implement the following five measures:

### 1. Policy actions, norms and standards

**(a)** “Establish harmonized policies and regulations that support the implementation of traceability and transparency, in order to achieve higher environmental and social standards, economic viability and circularity in garment and footwear value chains.

**(b)** Define minimum levels of traceability across garment and footwear value chains (from raw materials sourcing to consumption and post-consumption activities) and the minimum data that need to be collected in order to show due

diligence and transparency in support of claims regarding the origin, composition and other characteristics, including the sustainability performance of products, processes and facilities.

**(c)** Encourage companies' efforts to embrace higher transparency in value chain operations, for example by disclosing the names and addresses of suppliers' factories and sharing relevant information on their sustainability performance with stakeholders who are impacted, or potentially impacted, by enterprise decisions. This should be done in a timely, culturally sensitive, open and accessible manner, in line with international data protection norms and standards.

**(d)** Reduce the implementation burden on businesses and support SMEs by promoting the use of international standards, such as the UN/CEFACT standards for traceability and transparency of sustainable value chains in garment and footwear or the equivalent, and by encouraging the use of existing data."

## 2. Incentives

**(e)** "Provide economic and fiscal incentives (positive and negative) for establishing and implementing value chain traceability and transparency systems, especially in support of SMEs, small farmers and producers, and other vulnerable groups such as women, young workers, home-based workers and migrant workers."

**(f)** "Provide non-financial incentives, including measures to facilitate access to markets; fast-track processes; public

procurement criteria that are green and socially responsible; specialized managerial and workforce training; public visibility; peer-learning and non-financial reporting requirements."

## 3. Research and development

**(g)** "Support research and development, and identify and scale-up innovative solutions."

## 4. Awareness and education

**(h)** "Provide education in order to allow consumers to: make informed choices; create awareness of the shared responsibility of all stakeholders, including both business and consumers, to take an active role in preserving our planet; increase the demand for materials, products and processes that are more responsible and sustainable."

## 5. Multi-stakeholder collaborative initiatives

**(i)** "Stimulate and support multi-stakeholder, collaborative initiatives that seek to achieve industry-wide change and create shared value for all industry actors. These should be inclusive, benefitting especially SMEs and vulnerable groups in developing and transition countries while, at the same time, addressing garment and footwear value chains' sustainability risks and impacts."

The creation of a common traceability and transparency standard for garment and footwear value chains can reduce overall costs and provide a better basis for equal and fair trade in the marketplace. Traceability and transparency can benefit SMEs "if they

# Living wage and living income

## Introduction

simplify the procedures, bring cost-efficiencies, add value, and help SMEs to upgrade their practices. One core principle for widespread uptake and participation in a traceability system is flexibility in its implementation and the avoidance of a one-size-fits-all approach. The goal of traceability is not to overwhelm actors in the value chain; it is to improve their sustainability footprint over the long term and to create a responsible and resilient industry.”<sup>40</sup>

When implementing traceability and transparency systems, tools and guidelines should be adapted for SMEs through dedicated action plans, training and toolkits (more in the Annex).<sup>41</sup>

For instance, the Fashion Transparency Index<sup>42</sup> can act as a capacity building tool for SMEs to identify and address gaps in their public disclosure, and enables them to benchmark themselves against bigger players in the industry.

Workers and smallholder producers in the textile sector do not earn enough to provide a decent living for themselves or their family. Both living wage and living income are crucial to address poverty as a root cause of adverse human rights and environmental impacts.

Earning a living wage allows workers to provide for themselves and their dependants’ basic needs - including food, housing, education and healthcare as well as some discretionary income for unexpected events. A living wage should be earned in a standard workweek of no more than 48 hours and should be calculated before bonuses, allowances or overtime.<sup>43</sup> Whereas living wage refers to wage earners, a living income for smallholders (for example cotton farmers) is understood as the income they derive from their production, which needs to meet the needs of their household as well as their farm needs, including those of their dependants (e.g. living wages for workers).<sup>44</sup>

Increasing wages and incomes in the textile sector will improve millions of lives of people working in the industry, and it will allow all fashion companies, including SMEs, to advance in their path towards sustainability.

## Biggest challenges

### Minimum wage ≠ living wage

It is a national government's responsibility to make sure their citizens have the means to a decent living.<sup>45</sup> To this end, most governments set a minimum wage. This can be either general or sector specific. However, in most garment producing countries the minimum wage is too low to make a living for garment workers. Many countries depend on the export of textiles for their national income.<sup>46</sup> Afraid to lose orders, and consequently state income, governments are hesitant to put in place higher wages for the sector.<sup>47</sup> Their fear is based on reality, considering that when the minimum wage almost doubled in Bangladesh in 2014 from 3,000 to 5,300 Taka, almost no buyers agreed to a price increase to reflect the increased labour costs.<sup>48</sup> It is well documented that most companies do not check whether their purchasing prices allow their suppliers to pay their workers a living wage.<sup>49</sup> Moreover, ensuring a living wage is one of the most effective ways to end child labour, as garment workers would be able to provide for themselves and their family.

### Unfair competition

The way the garment industry is currently set up, one factory will usually accept orders from different brands at the same time. This means that one brand alone is not responsible for the factory's revenue and the resulting wages. Even SMEs that want to work towards living wages in their supply chain face difficulties because of their small leverage over the situation. Bigger brands might push for lower prices or shorter lead times, influencing the

average wage of workers. Introducing legislation that all brands have to comply with, would take away this unfair competition.

### Lack of universal benchmarks

One of the challenges in improving wages of workers is defining the benchmark. Many brands have publicly supported payment of living wages but have not clearly defined actual figures for living wages, pointing to the diversity of benchmarks as the main obstacle. Even more difficult is the calculation of a living income. Smallholder producers, such as many of the cotton farmers, do not earn a wage but make an income out of their yields. Income calculation works differently than with wages. First steps have been taken in the cocoa sector to estimate what a farmer should receive per kilo to provide for his/her family.<sup>50</sup> In the cotton sector these numbers are still unknown.



## Legislation

Currently there is no legislation that regulates living wages in the garment sector. However, international treaties and guidelines do refer to the concept of a living wage.

- **Art. 7(a) of International Covenant on Economic, Social and Cultural Rights (ICESCR):** ‘the States Parties to the present Covenant recognize the right of everyone to the enjoyment of just and favourable conditions of work which ensure, in particular remuneration which provides all workers, as a minimum, with fair wages and [...] a decent living for themselves and their families’.<sup>51</sup>
- **Art. 23(3) of Universal Declaration of Human Rights (UDHR):** ‘everyone who works has the right to just and favourable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.’<sup>52</sup>
- **Principle 11 of United Nations Guiding Principles on Business and Human Rights:** business enterprises should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.<sup>53</sup>
- **OECD:** a company ‘should develop pricing models that account for the cost of wages, benefits and investments in decent work.’<sup>54</sup>

Because these norms are not legally binding for companies, they aren’t properly enforced. Binding regulation on living wages in the garment sector is therefore crucial to improve the situation of garment workers.

## Policy recommendations

**Due diligence on living wages:** the EU should introduce due diligence legislation on living wages for all textile companies active on the European single market. Whether sector-specific due diligence or the CSDDD, all fashion brands and retailers should be covered by legislation focusing on living wage due diligence. This is because SMEs are predominantly active in this industry, so a broad scope of application is necessary to ensure that the whole textile, garment and footwear sector is covered. The principle of proportionality, as laid down in Article 5 (4) of the Treaty on the functioning of the European Union, ensures that the size of the brand is considered in the context of its operations and the severity and likelihood of risks. These risks would include respect of the human right to a living wage, such as wage theft, the freedom of association, the right of collective bargaining and precarious contracting arrangements. This approach ensures a level playing field for all brands and retailers in the sector. Additionally, the list of human rights to be covered also needs to include living income. See [chapter 5](#) for more specific policy recommendation on the proposed CSDDD. As laid out in the Good Clothes Fair Pay campaign<sup>55</sup>, supported by many civil society organisations, legislation on living wage due diligence should ensure to cover the following aspects:



# Unfair trading practices

## Introduction

- **Transparency:** brands should be obliged to publicly disclose production facilities of their supply chain at tier 1 and processing level, and provide information about the working conditions at each location, including information on wages. For more on transparency see [chapter 2](#).
- **Purchasing practices:** a ban on unfair purchasing practices should be introduced, so that garment factories have the financial space to pay their workers a living wage. For more policy suggestions on unfair trading practices, see [chapter 4](#).
- **Stakeholder engagement:** strong worker representation is important for wage negotiations. Besides this, individual workers should have the opportunity to speak out if problems arise at a factory. Therefore, a grievance mechanism should be in place that is easily accessible by workers and producers.

**Benchmarks:** the EU should provide clear information and calculation methods on wages, that both brands and worker representatives can use. Trade unions and worker representatives should be closely involved in the process of setting the benchmarks. With clear benchmarks in place, the conversation can revolve around ways how to reach a living wage and not on the methodology of how the wage should be calculated. These benchmarks should, however, never replace workplace negotiations.

The garment sector is unfortunately known for the unequal power imbalance between brands and suppliers.<sup>56</sup> Brands use their market power to dictate the buying conditions, and apply several Unfair Trading Practices<sup>57</sup> (UTPs) on their suppliers, such as delayed payments, returns of unsold goods or sudden termination of supply relationship.<sup>58</sup> These unfavourable terms leave manufacturers<sup>59</sup> with very little space to invest in good working conditions, sustainable production and living wages for their workers, and this is especially the case for small and medium factories.

## Biggest challenges

### Power imbalance

The power imbalances between (big) brands or retailers and their suppliers make that in reality no manufacturer will address unfair trading practices, even when these are illegal or explicitly forbidden by the agreement between them.<sup>60</sup> Scared that denouncing UTPs will influence future orders, manufacturers usually absorb the costs by cutting back on aspects such as health & safety or wages.

### Manufacturers can't invest in improved sustainability

Brands use their buying power to negotiate unrealistically low buying prices, sometimes even below production costs.<sup>61</sup> When manufacturers are so squeezed by brands, they have no financial space to invest in sustainable materials, safe working conditions, living wages or reduced emissions. And this happens not only

to manufacturers located in third countries where garment production typically takes place like Cambodia<sup>62</sup>, Vietnam and Bangladesh<sup>63</sup>; but it equally affects European manufacturers located in production areas inside the EU such as Eastern Europe and Italy.<sup>64</sup> Short lead times and last-minute changes affect the production planning, often leading to (unpaid) overtime or illegal subcontracting.<sup>65</sup> And even smaller brands wanting to support fair conditions for workers through responsible purchasing decisions, are faced with these challenges at factory level that they alone cannot fix.

### Low wages

Driven by the search for ever lower costs, brands usually source garments from low-income countries.<sup>66</sup> Although unfair trading practices have been applied at all times, the COVID-19 pandemic brought the flawed system to light even more<sup>67</sup>: garment brands postponed orders (and corresponding payments), demanded price reductions or cancelled (already produced) orders completely.<sup>68</sup> This severely affected factories. For example, at the height of the pandemic, between a quarter and half of Cambodian factories had to suspend production.<sup>69</sup> As a consequence, workers' incomes dropped by an average of 20%. To compensate, workers had to save money by lowering their food intake. Some workers consumed half of the recommended calories intake, and a third of Cambodian workers was medically underweight.<sup>70</sup> In a worldwide survey amongst garment workers, 77% indicated that they or one of their family members had become hungry since the pandemic.<sup>71</sup>

## Legislation

**Directive on unfair trading practices in the agri-food sector<sup>72</sup>:** this Directive from 2019 bans specific unfair trading practices imposed from one business partner to another active in the agri-food sector. Bans include unilateral contract changes, last-minute cancellation of orders and payments later than 30 days of invoices concerning perishable products (for others, later than 60 days). This directive is not applicable to garment companies but can be used as inspiration.

Unfair trading practices of brands are amongst the root causes of many types of violations of human rights and adverse impact on the environment

## Policy recommendations

**Ban on unfair trading practices in the textile sector:** the European Commission should introduce legislation to prohibit unfair trading practices in the textile sector. The legislation should include:

- A ban of the following actions, amongst others, for companies active within the EU single market:
  - Buying at prices that do not cover cost of production and the payment of a living wage to workers
  - Last-minute changes in design or lead times
  - Unilateral amendments to contracts and cancellation of (partly produced) orders
  - Short notice cancellations
- Sanctions should be applied to companies that do not (fully) comply.
- An effective complaint mechanism through which suppliers can safely but transparently flag unfair trading practices and the brands applying them. The complaints received should be made public to the extent that it does not compromise the safety of the plaintiff.

**Incorporate UTPs in policies:** other EU policies with relevance for the textile sector, such as the CSDDD, CSRD and forced labour ban, should include clauses on unfair trading – and purchasing – practices. To ensure that the costs of investing in sustainability are proportionally shared along the value chain, and suppliers have the means

to produce sustainably, companies should be required to assess and address the adverse human rights and environmental impacts of their purchasing and pricing practices and business models, as part of their due diligence obligation. To move towards a partnership approach, companies should develop mutual buyer-supplier codes of conduct and contractual clauses that include both buyer and supplier responsibilities. Therefore, as made clear in the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector<sup>73</sup>, purchasing practices should clearly be addressed as part of the due diligence process. This needs to be reflected in the due diligence obligations in the CSDDD (see [chapter 5](#) for detailed recommendations on this) as well as addressed in the forced labour ban.

Addressing the issue of UTPs in textile value chains will ensure fairer and more balanced trade relationships to the benefit of all actors involved – from producers, to sustainable buyers, workers and consumers. Almost always, SMEs working in the sector find that they are price takers and not price makers. Despite significant market challenges, SMEs (both brands and suppliers) are innovating with purchasing practices that begin to shift power dynamics within fashion value chains. If supported also by public policies, smaller players have the potential to be industry front-runners and demonstrate fair purchasing practices that can be replicated and scaled across the garment sector.<sup>74</sup>

# Human rights and environmental due diligence

## Introduction

The textile sector is responsible for huge impacts on the environment and human rights. For instance, the use of hazardous chemicals within fashion supply chains highlights how closely human rights and environmental impact are connected and have negative ramifications on both people and planet. Over 8,000 synthetic chemicals are used in the fashion manufacturing process, some of which are harmful to health and the environment.<sup>75</sup> Workers handling hazardous chemicals often do not have the right equipment or are incentivised not to use it because it slows down work while they are forced to meet tight deadlines. At present, garment companies are not required to take into consideration risk for adverse impacts on the environmental or human rights in their value chain when doing business, and voluntary industry initiatives have clearly shown not to be sufficient to ensure systemic change within the fashion industry.<sup>76</sup>

As a result of growing awareness of the impact of companies' operations on human rights, in 2011 the United Nations published the UN Guiding Principles on Business and Human Rights<sup>77</sup> (often abbreviated as UNGPs), making clear it is the responsibility of companies to conduct human rights due diligence: a process aimed at identifying, assessing, preventing, mitigating, tracking, communicating about and provide for, or cooperate in, remediation of the adverse impact on human rights (and later also environmental) in their value chains. However, these guidelines are voluntary for companies to comply with and have not led to enough change.

All fashion companies, including SMEs, may be linked with risks for human rights and the environment, and pressures to act responsibly are increasing, coming from the legislators – with the upcoming Corporate Sustainability Due Diligence Directive – but also from consumers, who are asking for more sustainable choices in the market.

## Biggest challenges

### Decent work

As the chapters above have shown, human rights abuses are very present in the textile sector, with low wages and incomes leading to even more human rights risks. The power imbalances, lack of transparency and unfair purchasing practices of companies contribute to the persistence of these problems. In addition, practices such as child labour and recruitment fees<sup>78</sup> contribute to forced labour which is endemic to the industry. Industry initiatives have not been able to fix this, and voluntary human rights and environmental due diligence has brought insufficient change for workers and producers.

### Access to justice

In many garment producing countries the legal system faces widespread challenges. Laws might not always exist that protect garment workers or smallholder producers from company behaviour. And even if protective laws do exist, courts are often overburdened with cases, in other instances legal measures might be difficult because of high costs involved, costs that many

workers and producers cannot cover. This means that when a cotton farmer receives less income than (s)he should, or if a garment worker is forced to work unpaid overtime, they often have no legal means to correct the situation.

## A central part of any due diligence legislation should therefore be access to justice.

### Climate change

In the textile sector, both climate change adaptation and mitigation are key issues that should be accounted for by companies in their due diligence process. According to UNGPs, a due diligence process should prioritise impacts that are most severe, judged by their scale, scope and irremediable character. For many stakeholders in global value chains, including cotton farmers, climate change is posing an immediate, wide scale and irremediable threat. Drought or heavy rainfalls are becoming more common. Unpredictable weather leads to less yield, which in turn leads to less revenue. Because of the low-income producers receive for their product, they don't have the financial space to invest in climate adaptation, leading to even more losses the next season. Desperate for a way out, many farmers take out a loan, but these loans often have huge interest rates, leading to immense debts. For some farmers this situation becomes so dire that they take their own life.<sup>79</sup>

On the other hand, the textile sector contributes to climate change through high emissions generated by production processes. Textile is the fourth biggest contributor to climate change from an EU consumption perspective, and the industry's emissions are only expected to increase.<sup>80</sup>

### Purchasing practices

Unfair trading practices of brands are amongst the root causes of many types of violations of human rights and adverse impact on the environment, such as low wages<sup>81</sup>, forced overtime and overproduction, as described in more detail in [chapter 4](#). The OECD identified a tendency for companies to pass the costs of HREDD implementation down the supply chain, without addressing the impact of their own practices in the Mineral sector.<sup>82</sup> In practice, this means that asymmetrical power relations between buyers and suppliers in global value chains often lead to economic actors in a weaker position, like suppliers and smallholder farmers, facing higher requirements for their production processes without a proportionate raise in the prices they receive for their products. It is therefore essential that the upcoming CSDDD includes an obligation to address a company's own purchasing practices as part of the due diligence process to ensure that it leads to effective implementation. This is also made clear in the OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector.<sup>83</sup>

# Legislation

**Corporate Sustainability Due Diligence Directive:** the basis for HREDD was laid out in two important documents: the United Nations Guiding Principles on Business and Human Rights<sup>84</sup> and the OECD Guidelines for multinational enterprises.<sup>85</sup> These documents are not legally binding for companies, but a call for mandatory HREDD has been growing. Several civil society organisations, academics and companies agree that the only way to bring the garment industry forward is to make HREDD mandatory for brands. The move towards mandatory HREDD has included the Duty of Vigilance law in France in 2017 and similar legislation in other European countries, as well as the EU non-financial reporting directive, now the Directive on Corporate Sustainability Reporting (CSRD), the instrument through which the requirements in the CSDDD will be reported by companies. This was followed by the European Parliament in 2021, when it presented a report with recommendations to the European Commission on business due diligence and corporate accountability.<sup>86</sup> In response, the European Commission presented a proposal for a Directive on Corporate Sustainability Due Diligence (CSDDD) in February 2022. The CSDDD is a valuable and long-awaited step in corporate accountability. However, because of the narrow company scope in the current proposal, it is likely that it will not solve most of the pressing challenges in the garment sector that have been laid out in the previous chapters. See table to right for comparison of the scope.

**Ban on forced labour:** the EU has proposed a regulation to prohibit products made with forced labour to be placed on the EU market.<sup>87</sup> As a market and risk-based mechanism, products where there is a substantiated concern of presence of forced labour, can be subject to an investigation. Investigation and enforcement of the regulation will fall on Member States national authorities. If the national authorities determine there is forced labour in the product, then an import ban will be applied, and the product will have to be removed from EU market and disposed of. As a product-based mechanism, it applies to all sector, including textile and garment. However, as the proposal currently stands, the forced labour regulation does not look into root causes of forced labour, nor does it contain any measures for responsible and inclusive disengagement.

Company scope	
<b>Parliament initiative 2021</b>	Large enterprises, as well as SMEs that are publicly listed and SMEs in sectors with high risks of human rights violations or environmental damage.
<b>CSDDD proposal by the EC 2022</b>	Very large companies (500+ employees and €150+ million net annual turnover) and large companies (250+ employees and €40+ million net annual turnover, of which at least 50% generated in a number of sectors with a high risk of adverse effects).
<b>CSRD</b>	Large (150+ employees) and all companies listed on regulated markets (except listed micro-enterprises)

## Policy recommendations

Forthcoming legislation on HREDD should be in line with international standards, such as the UNGPs and OECD Guidelines. At least the following points should be included in the European CSDDD that is currently being negotiated:

**Company size:** all companies should be covered by legislation on HREDD. This is important for two reasons: first, it is in line with international standards – the OECD Guidelines clearly state that “enterprises, regardless of their size, sector, operational context, ownership and structure, should respect human rights wherever they operate”.<sup>88</sup> Second, only focusing on big companies will make the legislation ineffective for the textile sector, as it will not cover SMEs that constitute the vast majority of the EU textile industry. Consequently, most of the workforce in the sector will remain at risk of human rights violations.<sup>89</sup>

With regard to the specific needs of SMEs, given their size and position within supply chains, they often have less leverage over their suppliers and less financial capacity to adopt due diligence policies.<sup>90</sup> It is therefore important that any HREDD legislation provides specific guidelines for SMEs, for example by facilitating collaboration and pooling leverage.<sup>91</sup> The OECD Guidelines suggest that SMEs develop a more intensive supplier selection process, consolidate (where feasible) their supplier base and limit the number of intermediaries, as well as actively seek out similarly sized suppliers. This will help reduce the cost and complexity of supplier assessments. Restricting the number of countries involved in the supply chain is also recommended, as well as seeking common buying agents.<sup>92</sup>

**Purchasing practices:** to ensure that the costs of investing in sustainability is proportionally shared along the value chain, and that suppliers have the means to respect human rights, companies need to assess and address the adverse human rights and environmental impacts of their purchasing and pricing practices, as well as their business models, as part of their due diligence obligation.

While it is clearly laid out in the recitals of the proposed CSDDD that companies should “identify and assess the impact of a business relationship’s business model and strategies, including trading, procurement and pricing practices” (Recital 30), such a crucial element should be included in the core obligations of the directive throughout the due diligence process laid out in Articles 5 to 10.

**Full value chain:** there should be an effective and robust obligation to prevent and end adverse human rights and environmental impacts across the entire value chain, in a risk-based and proportionate manner. Regrettably, the proposed CSDDD limits the due diligence obligation to “established business relationships”, which falls behind international standards and risks generating incentives for companies to restructure their value chains in order to avoid being covered. Limiting the due diligence obligation only to upstream activities would also be very problematic as this would not cover for example recycling and textile waste, where a big part of the environmental adverse impact of the textile sector is generated.

**Living wages and living incomes:** the proposed CSDDD explicitly includes living wage and a decent standard of living as a human right in Part I A of the Annex, so it's very important that the European Parliament and the Council maintain these provisions. However, it's regrettable that the proposal does not include any reference that would make companies responsible for using their leverage to contribute to a living income in value chains. A specific provision on living income should be included in Part I A of the Annex, in reference to the right to an adequate standard of living – in accordance with Article 11 of the International Covenant on Economic, Social and Cultural Rights (ICESCR) and Article 25 of the Universal Declaration of Human Rights.

**Climate due diligence:** under the CSDDD, all companies should be obliged to conduct due diligence on climate risks and implement an effective transition plan in line with the Paris Agreement with clear, time bound targets, which is enforceable by public authorities. The extent of the contribution in own value chains of companies should be assessed and prevention, mitigation and remediation measures should be put in place. This includes for example better purchasing practices and living wages and incomes that would allow suppliers to move to more sustainable business models and smallholder farmers to transition towards future-proofed sustainable agricultural practices. The CSDDD should account for the direct and indirect contribution of companies to climate change and incentivise co-investment in climate change adaptation and mitigation in companies' value chains. Although Article 15 of the proposal includes an obligation for

companies to adopt a plan to ensure that their business model and strategy are compatible with the 1.5 °C objective of the Paris Agreement, it does not require companies to conduct due diligence on climate risks. Therefore, in the Annex of the CSDDD, there should be an explicit reference to the Paris agreement. Direct and indirect contributions to climate change should also be explicitly included in the due diligence obligation for all companies. Finally, Article 15 should be adapted to apply to all companies in scope, particularly those in high impact sectors.

**Meaningful stakeholder engagement:** in the proposed CSDDD, engagement with affected stakeholders is limited to consultations where relevant, when companies develop preventative and corrective action plans as part of the prevention of potential adverse impacts. Instead, meaningful engagement should be recognised as a key element of each step of the due diligence process. Meaningful engagement – a concept developed in the OECD Due Diligence Guidance for Responsible Business Conduct – goes beyond mere consultation. Its objective is for companies to understand and identify effective ways to respond to affected stakeholders' needs and concerns. It should be undertaken by companies at all stages of the due diligence process – not only when they deem it “relevant”. Therefore, provisions on meaningful engagement should be included in Article 4, which lays out the due diligence obligation, and in Articles 6, 7 and 8, which detail the stages of the due diligence process and related obligations.

**Responsible disengagement as last resort:** while Recital 32 of the proposed CSDDD clearly mentions



# Sustainable public procurement

that the Directive “should ensure that disengagement is a last-resort action” to “enable continuous engagement with the value chain business partner instead of termination of business relations (disengagement) and possibly exacerbating adverse impacts”, this key element, which is in line with the OECD Guidelines, is not reflected in the core obligations of the proposed directive – in particular in Articles 7.5 and 8.6. It should be made clear in those articles that disengagement from suppliers should be used as a last resort measure, only where mitigation is not possible, unacceptable or attempts of mitigation have failed.

**Forced labour<sup>93</sup>:** any instrument tackling forced labour must address the issue of companies not paying a price that enables upstream producers to respect and uphold human rights, paying living wages to workers and earning a living income for smallholder farmers. Ensuring these issues are effectively addressed and measures are implemented must be part of the EU proposal for a forced labour ban. Equally, the EU proposal must ensure that companies assess the negative impacts of their purchasing practices, ensuring that these do not represent an obstacle for their suppliers to respect and uphold human and labour rights. Clear provisions that prohibit the transfer of compliance costs upstream of the supply chain to the actors in a weaker position and onto affected people should also be included in the proposed EU ban. Finally, the EU forced labour regulation must disincentivize harmful disengagement and encourage long term investments to support suppliers, as this would contribute to addressing root causes of forced labour.

## Introduction

Sustainable public procurement (SPP) is understood as a ‘process by which public authorities seek to achieve the appropriate balance between the three pillars of sustainable development - economic, social and environmental - when procuring goods, services or works at all stages of the project.’<sup>94</sup> It is increasingly accepted that a transition to SPP is essential to achieve sustainability objectives set in numerous international documents such as the Sustainable Development Goals.<sup>95</sup> On average, public procurement accounts for 12% of the GDP in OECD states,<sup>96</sup> and constitutes almost 30% of total government expenditures.<sup>97</sup>

**Public authorities thus act as ‘mega consumers’ with the power to influence standards and transform markets.**

Considering their significant potential to impact any sort of sustainable transition, the current lack of systemic change towards sustainable public procurement could even be characterised as a ‘significant obstacle’ to the fulfilment of the SDGs.<sup>98</sup>

In the EU, there has been quite some progress on sustainable public procurement, especially following the 2014 Directives<sup>99</sup> which allowed the inclusion of sustainability considerations in the public procurement process. Nevertheless, especially the human rights dimension of SPP has not so far been addressed in EU public procurement legislation policy or guidance.<sup>100</sup>

# Biggest challenges

## Focus on lowest price

One of the key challenges in introducing sustainability criteria to public procurement is the traditional focus on finding a bid that offers the lowest price. Despite the new legislation makes it possible to weigh the price with quality, including sustainability standards, price remains the criteria with the most weight.

## Legal uncertainty for public procedures

While the 2014 Directives opened the possibility for public buyers to include sustainability criteria into their procurement process, this option is rarely used in practice. Focusing on the lowest price criterion is deeply entrenched in the practice of public procurement and requires a mandate and an investment on the side of national authorities in gradually adapting their practices in a rigorous manner that retains credibility of the process. Even if this happens, introducing new sustainability-based criteria can expose public procurers to legal claims of tenderers claiming that a decision including such criteria was not in line with the rules on public procurement.

## Fragmentation of sustainability aims

The current progress on sustainable public procurement in the EU was mainly fragmented and new approaches differentiate between 'green' and 'social' public procurement. This approach has led to public authorities choosing aims that were easiest to implement and not necessarily those that would be most urgent. Stronger focus has been placed on introducing and implementing environmental standards. However, environmental, social and economic sustainability are deeply intertwined, and only addressing one or two will not lead to that holistic change that is needed for

the just transition; moreover, it is not in line with the definition of sustainable public procurement as set by the European Commission.

## Legislation

Mandatory criteria for green public procurement of textiles: the introduction by 2024 of mandatory criteria for green procurement of textiles was announced in March 2022 by the EU Textile Strategy<sup>101</sup> under the Ecodesign Regulation (Article 58).<sup>102</sup> In the Commission's proposal however, the focus is only on environmental sustainability, leaving social aspects dangerously out of scope. The mandatory technical requirements have not been defined yet, but if social sustainability is left unaddressed, it will be a huge, missed opportunity for the EU's overall sustainability objectives.

2014 Directive on public procurement: the EU 2014 Directive, which has been transposed into national laws in Member States since April 2016, enables public authorities to include sustainability considerations and innovation into their public procurement processes, provided they are linked to the subject matter of the contract.<sup>103</sup> For instance, Article 18(2) clarifies that States shall take the appropriate measures to ensure that in the performance of public contracts, economic operators comply with applicable obligations in the fields of environmental, social, and labour law. Article 68 provides that the most economically advantageous tender can be determined on the basis of a 'cost-effectiveness approach', including a 'price-quality' ratio which can also

measure social and environmental aspects. Nevertheless, while businesses are increasingly called to improve human rights conditions in their supply chains, there is a lack of clear legal standards on the inclusion of human rights criteria in public procurement.<sup>104</sup>

## Policy recommendations

No split between green and social public procurement: there is a need to support and develop a more holistic approach to sustainable public procurement and ‘understand the connections between environmental, social and economic aspects of sustainability, so that gains achieved in one area do not come at an unacceptable cost to another’.<sup>105</sup> Research has also found that the ministries or agencies involved in the design of sustainable public procurement policies are predominantly those associated with environmental, economic and financial affairs, with only 4% of those covering social matters.<sup>106</sup> This is relevant as sustainable procurement should be shaped as a policy, rather than just as an ad-hoc practice, so that it can be supported, monitored, and improved over time.<sup>107</sup> A more holistic policy approach to public procurement would also help alleviate the burden of organisational difficulties for public buyers created by the silo approach in which ‘green’ and ‘social’ concerns are sometimes addressed by different departments or even just in separate contracts, as sustainable public procurement would be guided by an overarching policy.<sup>108</sup> A general commitment by public authorities to conduct own HREDD would also act in a similar way.

To do so, there is a need to review the 2014 Public Procurement Directives, with a view to:

- Prohibit lowest price criteria, only allowing the possibility in some well-justified exceptional cases. Make price-quality, including sustainable criteria, the norm. Add the term “social” to Article 42(3)(a) referring to technical specifications.
- Refer to all internationally recognised human rights, including a reference to Living Incomes as a precondition for the fulfilment of other human rights.
- Make it mandatory for public procurers to conduct Human Rights and Environmental Due Diligence (HREDD) and address the direct and indirect impacts of own purchasing practices, including prices.
- When developing “minimum mandatory criteria for sustainable green procurement” as foreseen in the EU Textiles Strategy, bear in mind that minimum mandatory procurement criteria must go beyond Green Public Procurement, and consider health but also social sustainability concerns, such as Fair Trade criteria.<sup>109</sup>

A holistic view on sustainability (social and environmental), coupled with a price-quality approach and the introduction of mandatory criteria for sustainable green procurement of textile and garment products will benefit circular and sustainable SMEs in the fashion industry, who act as front-runners and implement best practices in their operations. This would help level the playing field so that SMEs with more sustainable business models will have more chances to access public tenders.

# Conclusions

The textile and garment industry employs millions of workers. Improving their working conditions will ensure their human rights and those of their families are respected. The EU is taking steps towards these improvements by introducing policy change, mainly through the EU Strategy for Sustainable and Circular Textiles and the Corporate Sustainability Due Diligence Directive. However, to achieve systemic change in the fashion industry and ensure a level playing field, there is still quite some work to do, as this White Paper has shown.

In order to ensure sustainable business models, the key issues that need to be addressed are rising income inequalities and the levels of overproduction. On one hand, we suggest better taxation on executive pay to ensure equal redistribution of wealth within the fashion industry. On the other hand, it is crucial for brands to be held accountable for the amount of clothes they make and the waste they produce. We advocate for the introduction of effective legislation on Extended Producer Responsibility, where brands would bear the costs of managing the end-of-life of their garments, and a taxation policy for the number of garments produced to ensure overproduction is addressed at the source.

Given that the fashion industry is notoriously opaque and supply chains are highly fragmented, consumers and policymakers are demanding for greater transparency from fashion brands and retailers, as transparency plays a key role in holding them accountable for the human rights and environmental impacts of the clothes they produce. While the CSDDD and its reporting requirements push the industry to address human rights and environmental risks within fashion supply chains, the EU is also

looking at targeting greenwashing through its initiatives on ‘substantiating green claims’ and ‘empowering consumers’. We advocate for greater transparency at product level through the Digital Product Passport to make sure companies disclose the impact of their products on people and planet, as well as transparency at factory level through a public suppliers database allowing brands to address these impacts across their supply chain by collaborating with other brands sourcing from the same factories.

Poverty wages are endemic to the fashion industry as the majority of garment workers worldwide are unable to provide for themselves and their family. The fashion industry cannot currently address this due to a lack of traceability within the supply chain – making it nearly impossible to know how much garment workers are paid, and diverting the responsibility of wages to suppliers. Brands and retailers should make sure that the people who make their clothes are paid fairly by conducting due diligence on living wages and living income through the expansion of the CSDDD scope, or by creating a sector-specific due diligence process on living wages.

The lack of living wages for garment workers is a result of great power imbalances between fashion brands and suppliers, thanks to which brands and retailers are able to dictate the terms and conditions of trade by pushing for lower costs and shorter lead times, this way compromising the health and safety of the people who make their clothes. We recommend an EU ban on unfair trading practices, and the inclusion of clauses on unfair trading practices in other EU legislations, like the CSDDD and forced labour ban.

In addition, if we want brands and retailers to be held accountable for their impact on people and the planet, the scope of the CSDDD needs to be widened to capture the whole industry, meaning it should be applied to companies of all sizes. Due diligence across supply chains ensures that human rights and environmental risks are identified and addressed; but for this mechanism to be effective, we advocate for meaningful stakeholder engagement at every step of the due diligence processes. If violations are identified and have not been remedied, we call for the inclusion of clear guidance on responsible exit.

Public authorities like governments and other state bodies are big buyers of textile and garment products, thus they can- and should- act as frontrunners for sustainability in their public procurement processes. Despite being introduced in the EU in 2014 by the Public Procurement Directive, the possibility to consider sustainability criteria when selecting tenders remains only a possibility, and is rarely used in practice. We welcome the introduction of mandatory criteria for green public procurement of textiles by 2024, and advocate for holistic criteria that put together environmental and social sustainability, as one cannot be achieved without the other.

As stated in the introduction, we welcome new legislation at EU level to regulate the textile and garment industry, surely a steppingstone in the right direction. We acknowledge the complexity and multi-faceted nature of the issues at stake, which we've tried to summarise in this White Paper – although not exhaustive – together with some concrete policy suggestions to support and enable the change we want to see in the sector, with special attention to the needs of SMEs. The European textile and garment sector

is characterised by a large number of SMEs, many of which are trying their best to become more circular and sustainable in the way they produce, buy and sell clothes. However, the systemic issues in the industry – power imbalances in supply chains, lack of traceability and transparency, low wages for garment workers – mean that even “Small but Perfect” businesses that put sustainability and circularity at their core are struggling to survive in the current context. The EU has recognised the need to address the challenges of the fashion industry on people and the planet, and different pieces of legislation are on their way. If done right, all legislation applied to SMEs would be based on the principle of proportionality as set out in Article 5 of the Treaty on European Union, to ensure that we level the playing field across the whole industry. This would benefit all actors involved in the supply chain, from garment producers to major fashion players and SMEs.

All of us – from civil society, to Academia and policy makers, businesses, investors and consumers – have an important role to play in the shift towards a circular and sustainable fashion industry, one that is clean, safe, fair, transparent and accountable. We believe in a global fashion industry that values people over growth and profit, and restores the planet we live in.



## Need of tailored measures to support born circular and born sustainable fashion SMEs<sup>110</sup>

Small and Medium-sized Enterprises (SMEs) are at the core of the EU fashion industry: in 2022, micro enterprises and SMEs represented 99.8% of total European companies in textile & clothing industry.<sup>111</sup> SMEs are relevant not just in terms of number of companies but also for their contribution to responsible innovation.<sup>112</sup> The importance of SMEs for the EU economy brought the European Commission to putting creation, growth, and internationalization of SMEs at the core of the Union's integrated industrial policy.<sup>113</sup>

Over the last years, the European Union has launched several policy initiatives to support SMEs<sup>114</sup> such as putting in place in 2014 the Executive Agency for Small and Medium-sized Enterprises (EASME), an EU body created to manage several EU research and innovation programs in the field of SMEs support and innovation, environment, climate action and energy, among others.<sup>115</sup>

In the garment and footwear sector, SMEs have specific needs when implementing sustainability and circularity. Given the EU Green Deal and Circular Economy Action Plan, Europe's new agenda for sustainable growth and the overall goal of reducing pressure on natural resources and creation of sustainable growth and jobs, it is key to support born sustainable and born circular SMEs in fashion with tailored measures.

This Annex is presenting the results of desk and field research carried out during the Small But Perfect project<sup>116</sup>, meant to prove the importance of tailored measures for born sustainable and born circular SMEs. The field research section includes: the results of the Small But Perfect initial 6 explorative focus groups, the survey shared with the Small But Perfect multistakeholder hub, including born sustainable and born circular fashion SMEs, and the SDA Bocconi Monitor for Circular Fashion 10 interviews to born circular and born sustainable fashion SMEs. The results are well aligned with the European Commission Textile Transition Pathway consultation activity which took place during 2022.<sup>117</sup>

The Small But Perfect acceleration program has been answering the identified needs with the different activities implemented, while the conclusions of this Annex are mainly focused on the regulatory needs, namely the need of customized policies and regulations to support born circular and born sustainable SMEs in fashion. The challenges already identified in the literature to implement sustainability in fashion value chains are presented in [Table 1](#).

TABLE 1: MOST RELEVANT CHALLENGES TO IMPLEMENT SUSTAINABILITY IN FASHION VALUE CHAINS

Topic	Challenges/Obstacles
<b>Competition and scale</b>	Competition from high volume/low price corporations; finding own voice in a market geared to large-scale operations; affordability and availability of materials linked to minimum volumes for orders; aligning values across a supply-chain and encouraging sharing of knowledge and resources which is likely to require value-chain coordination.
<b>Consumer awareness</b>	Attitude-behavior gap – awareness not yet matched with action; visibility of sustainable options – lack of consumer awareness/knowledge of alternative models; managing the high expectations of niche consumers.
<b>Lack of finance</b>	High start-up costs; lack of growth and income generation, uneasy cash flow management; lack of funding and sufficient support from banks; risk aversion and lack of business knowledge and awareness of available funding options, Increased working capital needed for product-service systems.
<b>Technical challenges</b>	Technical challenges related to rethinking the design phase of products and access to design tools; low quality/durability of textiles on market; commercially viable recycling options for low-grade textiles; scaling-up and commercialization of new recycling technologies such as fibre to fibre processing; high demands on human resources in sorting.
<b>Infrastructure and regulation for reuse and recycling</b>	Collection infrastructure for reuse and recycling – local, national, regional and global; lack of harmonization of requirements and regulation related to textile waste management and reuse across the EU and globally; lack of clarity in classification of textile waste – end of waste criteria; insufficient incentivizing through policy tools.
<b>Microfibre release</b>	Current status of knowledge on variables linked to microfibre shedding (e.g., industrial and domestic conditions); lack of harmonization and coordination of test methodology.

In addition to the more generic challenges presented above, according to the literature, more specific ones may affect circularity implementation, regardless of the company size<sup>119</sup>:

- barriers related to design for recyclability and access to resources<sup>120</sup>
- issues related to consumer perception of circular offerings.<sup>121</sup>

According to the literature, additional challenges especially relevant for SMEs with reference to implementation of circularity, may include<sup>122</sup>:

- lack of management support for 4.0 technologies<sup>123</sup>
- issues related to waste recycling<sup>124</sup>
- lack of tailored regulations and incentives, insufficient data and indicators to measure and communicate impacts, cost of product/waste take-back, inadequate awareness and market demand, complex product or packaging design that prevents proper reuse/recycling<sup>125</sup>
- high start-up costs, complex supply chains, challenging business-to-business (B2B) cooperation, lack of information on product design and production<sup>126</sup>
- low price of virgin materials compared to recycled materials and difficulties establishing cross-organizational collaborations.<sup>127</sup>

Even if the abovementioned challenges emerge clearly from both scientific studies and industry surveys, there is still a strong need to develop legislative and non-legislative customized measures to support SMEs with financial and non-financial incentives, information and training, and research and development that allow these actors to access markets, start implementing traceability and transparency systems and to ensure a level playing field in the market.<sup>128</sup>

More specifically, when implementing traceability and transparency systems, tools and guidelines can be adapted for these actors, for instance through special training and action plans.<sup>129</sup>

The results of the desk analysis provided the grounding material to carry out the field analysis presented below, with the main focus of identifying and mapping the born sustainable and born circular SMEs needs.



## Field research: SMEs needs analysis results

The field research has been implementing three methodologies (Box 1): 6 multi-stakeholders explorative focus groups focused on identifying the needs of the born sustainable and born circular SMEs; 10 interviews to born sustainable and born circular SMEs focused on identifying and mapping their needs; survey shared with the 27 born sustainable and born circular SMEs participating to the Small But Perfect acceleration program, focused on identifying and mapping their needs.

Table 2 is presenting the complete results from desk and field research on born sustainable and born circular fashion SMEs needs and possible solutions. Building on previous literature, 8 SMEs needs categories have been identified<sup>130</sup>:

- financial
- economic
- supply chain and market-related
- technological
- mentoring & networking
- regulatory
- informational
- socio-cultural

**BOX 1: METHODOLOGIES IMPLEMENTED FOR THE FIELD RESEARCH ON BORN SUSTAINABLE AND BORN CIRCULAR SMES NEEDS**

First field research methodology	Second field research methodology	Third field research methodology
<p><i>6 multi-stakeholders explorative focus groups</i></p> <p>In the focus group activity, the stakeholders involved highlighted specific needs.</p> <p>The participants were also asked to suggest possible solutions and recommendations in order to answer the SMEs needs and accelerate the transformational change towards sustainability and circularity, involving several stakeholders.<sup>131</sup></p>	<p><i>10 interviews to born sustainable and born circular SMEs</i></p> <p>The SDA Bocconi School of Management Sustainability Lab Monitor for Circular Fashion is a multi-year research project and a multistakeholder community.</p> <p>The Monitor for Circular Fashion aims at disseminating the best practices of circular fashion and promote technical, managerial and scientific skills especially those that contribute to the transition towards circular business models.</p> <p>The Monitor for Circular Fashion SDA Bocconi School of Management carried out 10 in-depth interviews to born sustainable and born circular SMEs to study the organizational needs of born-circular Italian fashion SMEs, which have partnered with large brands to scale-up circular innovation. A content analysis was carried out and their needs were analysed along eight dimensions.<sup>132</sup></p>	<p><i>Survey shared with the Small But Perfect 27 born sustainable and born circular SMEs</i></p> <p>Consistently with the findings coming from the desk and field analysis carried out, a survey on born sustainable and born circular SMEs needs was shared with the 27 Small But Perfect SMEs participating to the acceleration program.</p> <p>In order to generalize the results, the same survey could be used in future studies on a representative sample of the EU population of sustainable and circular fashion SMEs.</p>

The results of the European Commission Textiles Ecosystem Transition Pathway consultation activity<sup>133</sup> confirm the need to have a tailored approach to SMEs for the scaling up of the sustainable and circular innovations: the key outcomes are presented in Table 2.

As already mentioned above, the Small But Perfect acceleration program has been answering some of the identified needs with the different activities implemented, while the conclusions of this Annex are mainly focused on the regulatory needs.

**TABLE 2: BORN SUSTAINABLE AND BORN CIRCULAR FASHION SMES NEEDS AND POSSIBLE SOLUTIONS/TOOLS**

Needs category	Example of SMEs needs	Possible solutions/tools
Financial	Having appropriate funding in terms of quantity and conditions (time period etc.)	<ul style="list-style-type: none"> <li>Standardized ESG principles</li> <li>Green Public Procurement dedicated to SMEs, including also Public Procurement for socially responsible practices</li> <li>Grants &amp; subsidies dedicated to SMEs</li> </ul>
	Having an adequate range of investors (public/private/individual/common funds)	
	Having platforms pulling together specific grants and financing for circular SMEs	
	Effectively obtaining collateral or guarantees required by banks	
Economic	Increasing/creating economies of scale	<ul style="list-style-type: none"> <li>Incentives dedicated to SMEs</li> <li>Taxing companies that are not operating respecting environment and social sustainability criteria</li> <li>Funding schemes dedicated to SMEs</li> </ul>
	Decreasing indirect costs to devote to environmental improvements (e.g. time and human resources)	
	Public tax incentives, grants and other compensating measures for sustainable initiatives	
	Taxes and penalties for non-sustainable operations	
Supply chain and market-related	Improving traceability and transparency along the supply chain	<ul style="list-style-type: none"> <li>Cooperation with other SMEs to make joint procurement orders and overcome the minimum order volume issue</li> <li>Creation of platforms to sell/buy waste with incentives for SMEs</li> <li>Traceability and transparency tools as the Digital Product Passport to increase product and process traceability and transparency on both environmental and social aspects</li> </ul>
	Improving affordability of materials linked to minimum volumes for orders	
	Improving access and affordability of green logistics	
	Having direct access to market, e.g., through dedicated multi-brand stores selling sustainable and circular fashion	
Technological	Access to design and manufacturing tools	<ul style="list-style-type: none"> <li>Access to circularity infrastructure</li> <li>Reducing complexity/introducing tools to save time</li> <li>Dedicated and free training on the Digital Product Passport</li> </ul>
	Access to skills/know-how for sustainable practices	
	Access to recycling infrastructure (for chemicals, textiles etc.)	
	Improving access to recyclable resources (garments, textiles, chemicals etc.)	
	Increasing the supply of high-quality\ durable recycled raw materials (chemicals\textiles\garments etc.)	

Source: Bocconi University research for Small But Perfect, 2022; Rinaldi F.R. et al. (2022), "Monitor for Circular Fashion Report 2022: Moving forward", SDA Bocconi School of Management [www.sdabocconi.it/circularfashion](http://www.sdabocconi.it/circularfashion)

Mentoring & networking	<p>Increasing collaborations with institutions, research centers and academia</p> <p>Increasing collaborations with larger companies</p> <p>Increasing collaboration with small companies</p> <p>Increasing the support from the supply and demand network</p> <p>Having more dedicated mentoring for sustainability aims</p> <p>Increasing cross-border and EU-scale management of resources</p>	<ul style="list-style-type: none"> <li>• Dedicated hubs/forums to promote diffusion of knowledge and best practices</li> <li>• Dedicated hubs for networking among sustainable and circular fashion SMEs</li> <li>• Dedicated hubs for mentoring to sustainable and circular fashion SMEs</li> </ul>
Regulatory	<p>Removing administrative barriers (e.g. reducing the complexity and amount of regulation)</p> <p>Harmonising regulations on circularity across EU or within your country</p> <p>Increasing clarity on concepts/criteria of EU or your local legislation on circularity (e.g. producer responsibility, quality of separate collection, definitions set by the Waste Framework Directive etc.)</p> <p>Improving waste management regulation (e.g., to access to waste/deadstock leftovers)</p> <p>Having appropriate contracting and accounting processes for circular-oriented matters (e.g. due to inappropriate KPIs based on linear concepts of rapid returns)</p>	<ul style="list-style-type: none"> <li>• Clear and harmonized definitions of waste</li> <li>• Dedicated and free training on the adoption of common indicators to measure sustainability and circularity, CSRD and the Digital Product Passport</li> <li>• Common traceability and transparency standard</li> </ul>
Informational	<p>Having more external consultants expert in environmental issues (e.g. regulation\contracting etc.)</p> <p>Improving existing statistics and reporting about circular economy and your access to it (e.g. on textiles collection and recycling)</p> <p>Improving your awareness of available funding options</p> <p>Having a finance sector more aware of the investment opportunities of circular businesses</p>	<ul style="list-style-type: none"> <li>• Collaborations with larger companies to share knowledge</li> <li>• Collaborations with Institutions, Research Centers and Academia</li> <li>• Access to education</li> </ul>
Socio-cultural	<p>Improving sustainability awareness and acceptance from other companies</p> <p>Improving sustainability awareness and acceptance among consumers</p> <p>More involvement from public actors on circularity education</p>	<ul style="list-style-type: none"> <li>• EU awareness campaigns</li> <li>• EU education campaigns</li> <li>• Transparency on all areas of sustainability enabling consumers to make informed and responsible choices</li> </ul>

# Textile Transition Pathway co-creation process

Together with the EU Strategy for Sustainable and Circular Textiles, the European Commission in 2022 invited stakeholders to join the co-creation of a transition pathway for the textiles ecosystem. The objective of this inclusive process was to identify what the digital and green transitions and increasing resilience mean for the EU textiles ecosystem, and what specific actions and commitments are needed to accompany the transition.

The results of the targeted online stakeholder consultation and the thematic workshops with stakeholders are presented here (Box 1), with a focus on SMEs. The full publication can be found on the dedicated website.<sup>134</sup>

The results of this important phase confirm the need of customized policies and regulations to support born circular and born sustainable SMEs in fashion in 7 different areas:

## BOX 1: TEXTILE TRANSITION PATHWAY RESULTS OF THE TARGETED ONLINE STAKEHOLDER CONSULTATION

### 1. Sustainable competitiveness

“SMEs’ efforts to internationalise and export more shall be promoted. Beyond internationalisation, according to stakeholders, SMEs should be supported in their journey to sustainability and circularity, through partnerships and networks, knowledge and infrastructure. Stakeholders confirmed the need to implement a gradual approach for SMEs, a need to provide dedicated training, especially on the upcoming Digital Product Passport (DPP).”

“Stakeholders agree on the fact that actions should be adapted to SMEs’ needs in the implementation, for instance in terms of dedicated incentives, timing of implementation/size, criteria/size, availability of dedicated training and SMEs toolbox to reduce complexity.”

“Significant support will need to be provided to the ecosystem, especially to SMEs, to successfully make this digital transition. This should start with a thorough benchmarking study of existing best practices already applied by pioneers in the ecosystem or by similar stakeholders in comparable manufacturing or service sectors”.

### 2. R&I, techniques & technological solutions

“Funding for demonstration, technology transfer and training must be provided. Intermediaries such as cluster organisations, digital innovation hubs, technology and training centres etc. have an important role to play as an active role in (international) scouting of suitable technologies, engagement and hands-on support for potential industrial end users, especially SMEs.”

## STAKEHOLDER CONSULTATION AND THE THEMATIC WORKSHOPS WITH STAKEHOLDERS

**3. Infrastructure**

“Infrastructure is essential to scale innovations and bring them faster to market. While all companies are affected, SMEs struggle disproportionately, especially if affordable local access to vital infrastructure is not available.”

Possible support to SMEs may include for instance: creation of remanufacturing and upcycling hubs amongst SMEs for the development of collaborative projects and to build higher efficiency; infrastructure to digitalise and simplify administrative processes such as customs procedures or documentation and reporting requirements for safety, sustainability and social compliance, reducing time and costs of (international) business operations, especially for SMEs.

**4. Skills**

SMEs have a strong need to upskill and reskill the workforce along the entire value chain. “The EU Pact for Skills for the textiles ecosystem will work in this direction. Some of the tools proposed in this area include apprenticeships and training schemes within companies, modernisation of existing or the setting up of new vocational education and training centres, cross-country collaborations for knowledge transfer, and the set-up of Skills Observatory to map skills requirements. Active collaboration with VET providers and higher education is also needed to design more tailored and hands-on curricula and supply workers with the required new job profiles.”

**5. Regulation & public governance (legislation)**

Multiple regulations are on the horizon. “The whole ecosystem and especially SMEs need to be able to rely on clear, stable and accessible regulations and standards for data management that address all key dimensions of data reliability, security and confidentiality, interoperability across the value chain, investment and skills needs”. “Reliable, easy to use and cost-effective tools and services enabling even very small companies with limited resources and IT skills to connect to digital value chains and data exchange, These can include tools for virtual product creation and online presentation, tools to manage safety, sustainability and social compliance-related information and safely exchange it with other stakeholders in the supply chain or tools to securely and cost-efficiently engage in e-commerce.”. “There is a need for adoption of standardised traceability solutions... to enhance transparency and prevent illegal, unsustainable or unethical business practices in the global textile value chains, including textile, clothing, leather and footwear, such as counterfeiting, use of hazardous substances, forced or child labour, environmental pollution, greenwashing etc.”

## 6. Social dimension

“The need for compliance with EU regulations on environmental and social sustainability for imported goods was mentioned by many stakeholders with non-EU producers already raising concerns about their preparedness. The need to ensure the industry is ready was also highlighted seeing as the industry is made up of SMEs. The need to involve SMEs - especially social enterprises - was highlighted by stakeholders in their answers to the survey question: How could the green transition contribute to improving global competitiveness, especially the competitiveness of its SMEs?”.

“To summarise, it was agreed that: all stakeholders have a role to play (including brands and consumers), that the EU workforce needs to attract workers and ensuring the right skills for the future, that good wages and conditions are needed, that special attention must be given to vulnerable group, that the power imbalance between brands and employers and workers needs to be improved and that SMEs will need extra support. Furthermore, incentives to ensure high demand for sustainable products made in Europe is essential for a successful twin transition. Finally, there was general consensus for further analyse to be undertaken on the impacts on industry, workers and regions at granular level in order to anticipate change and prepare for the future to ensure a Just Transition.”

## 7. Investments and funding

“Access to funding is a critical issue for the actors of the ecosystem, particularly for SMEs. Beyond the need for public investments concerning infrastructure development (especially for recycling of textile waste) and reskilling and upskilling, innovation is another key area where support is needed. In this area, the ecosystem suffers from the lack of European programme/funding mechanisms specifically dedicated to the textiles ecosystem. As a consequence, applicants from the textiles ecosystem (majority SMEs) need to rely on calls, which do not take into account the specificities of the ecosystem and enter in competition with larger more resourceful players from other industries. According to stakeholders, innovation funding instruments at the EU level are primarily dedicated to high-tech and/or high-growth companies and focused on (often science-intensive) research activities and early phases of the innovation cycle.”

“Cluster organisations can play a particularly helpful role in guiding SMEs to appropriate funding schemes and providers, by monitoring available funding programmes/calls or by helping companies accessing public loans, equity or guarantee schemes and dealing with banks or other financial intermediaries.”

“When talking about key investments and funding to enable the green transition of the textiles ecosystem, stakeholders suggested mostly: incentives - particularly to support start-ups and SMEs; funding dedicated to R&I, textile-to-textile recycling and development of advanced technologies and processes in Europe; and increased funding opportunities to collect, sort and process textile waste.

To tackle these important issues, stakeholders proposed the establishment of a “European Partnership for R&I for the Sustainable and Circular Transition”, which will serve as a dedicated support scheme for the textiles ecosystem under the Horizon Europe programme. If possible, it should include a cascading funding mechanism to directly engage a large number of SMEs from the textiles ecosystem in rapid small-scale innovation and pilot testing actions. This could be designed to complement existing funding opportunities for demonstration, technology transfer, education and training currently available to textiles actors particularly under the LIFE, Digital Europe, and ERASMUS programmes.”

## The need of customized policies and regulations to support born circular and born sustainable fashion SMEs

Upcoming EU regulations already announced ([Table 3](#)) will have a strong impact on fashion SMEs.

In light of the need of customized policies and regulations to support born circular and born sustainable SMEs in fashion, the following regulations could especially require a customized approach in the implementation for SMEs.

The customized approach could be related to availability of dedicated incentives, adapted timing of implementation depending on the company size, availability of dedicated training for reskilling and upskilling, availability of specific toolboxes dedicated to SMEs to reduce complexity.

This Annex is reinforcing the suggestions presented in the White Paper with special focus on the importance of

enhancing traceability and transparency to accelerate the evolution towards sustainable business models.

Small But Perfect has been a relevant project to map the existing born sustainable and born circular fashion SMEs needs with the objective of answering some of those needs through the acceleration program, further expanding the impact through Train the Trainer activities.

Future multistakeholder initiatives alike will be necessary to answer existing needs, especially with regards to regulatory needs related to the implementation of a common traceability and transparency standard, clear and harmonized definitions of waste. It will be essential to provide dedicated training on the adoption of common indicators to measure sustainability and circularity, CSRD and the upcoming Digital Product Passport.

**TABLE 3: UPCOMING EU REGULATION ALREADY ANNOUNCED AND SUGGESTED CUSTOMIZED APPROACH IN THE IMPLEMENTATION FOR SMES**

Selected EU regulations	Customized approach in the implementation of EU regulations for SMEs
<ul style="list-style-type: none"> <li>• Proposal for measures to reduce the release of microplastics in the environment</li> <li>• Proposal for a directive on Sustainable Consumption of Goods – Promoting Repair and Reuse</li> <li>• REACH Regulation Revision</li> <li>• Ecodesign for Sustainable Products Regulation</li> <li>• Proposal for the revision of Directive 94/62/EC on Packaging and Packaging Waste (REFIT)</li> <li>• Legislative Proposal on substantiating green claims</li> <li>• Revision of the Textile Labelling Regulation</li> <li>• Proposal for a Directive on corporate sustainability due diligence</li> <li>• Corporate Sustainability Reporting Directive (CSRD)</li> <li>• Revision of the Waste Framework Directive including EPR</li> </ul>	<ul style="list-style-type: none"> <li>• Availability of dedicated incentives</li> <li>• Adapted timing of implementation/size</li> <li>• Adapting the criteria according to company size</li> <li>• Availability of dedicated training for reskilling and upskilling</li> <li>• Availability of SMEs toolboxes to reduce complexity</li> </ul>

# Endnotes

**1** In this publication the words 'textile' and 'garment' referring to the sector, the industry and/or the brands will be used interchangeably.

**2** Transparency Index 2022, Fashion Revolution. Available at: <https://www.fashionrevolution.org/about/transparency/>

**3** This paper uses the words 'company', 'brand' and 'retailer'. Even though there are overlaps, the concepts are slightly different. When referring to a company, this paper refers to a legal entity that operates in the garment- or textile sector. A brand refers to a company that designs and orders garments, these can be sold within their own stores or at other retailers. Retailers sell garments, own-branded or other labels. Some retailers sell several products besides garments, for example a department store that sells food, cosmetics and textiles.

**4** Out of the Shadows: a spotlight on exploitation in the fashion industry, Clean Clothes Campaign (2020), p. 3.

**5** Tailored Wages: the state of play in the global garment industry, Clean Clothes Campaign (2019).

**6** Annie Delaney, Rosaria Burchielli and Tim Connor, Positioning women homeworkers in a global footwear production network: how can homeworkers improve agency, influence and claim rights? (2015) 57:4 Journal of Industrial Relations 641.

**7** Petr Bengsten and Danwatch, Toxic chemicals used for leather production poisoning India's tannery workers, The Ecologist (2012). Available at: <https://theecologist.org/2012/oct/26/toxic-chemicals-used-leather-production-poisoning-indias-tannery-workers>

**8** Penelope Kyrnitsis, Genevieve LeBaron and Scott Nova, Hunger in the Apparel Supply Chain: Survey findings on workers' access to nutrition during Covid-19, Worker Rights Consortium (2021).

**9** Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: EU Strategy for Sustainable and Circular Textiles, available at: [https://environment.ec.europa.eu/publications/textiles-strategy\\_en](https://environment.ec.europa.eu/publications/textiles-strategy_en)

**10** Ibid., p. 2.

**11** <https://www.somo.nl/wp-content/uploads/2021/07/SKC-SME-report-2021-1.pdf>

**12** BUILDING BLOCKS FOR GOVERNING THE GARMENT INDUSTRY, Working paper 1, Sizing up the garment industry: large brands, supply chain labour market share, and lessons for government design (2022), p. 4.

**13** <https://www.goodclothesfairpay.eu/>

**14** [https://environment.ec.europa.eu/publications/textiles-strategy\\_en](https://environment.ec.europa.eu/publications/textiles-strategy_en), p. 1. See for example the method of Inditex in Stephanie O. Crofton and Luis G. Dopico, ZARA-INDITEX AND THE GROWTH OF FAST FASHION, Essays in Economic & Business History – Vol XXV (2007).

**15** Reuters (2023) Green is the new black as fashion sector fast-forwards on sustainability trend, Available at: <https://www.reuters.com/business/sustainable-business/green-is-new-black-fashion-sector-fast-forwards-sustainability-trend-2023-03-02/>

**16** Oxfam, Reward Work, Not Wealth (2018).

**17** Oxfam, Reward Work, Not Wealth (2018).

**18** European Environment Agency (EEA) (2019), Textiles in Europe's circular economy, available here: <https://www.eea.europa.eu/publications/textiles-in-europes-circular-economy>.

**19** Ellen MacArthur Foundation (EMF) (2017), A New Textiles Economy: Redesigning fashion's future.

**20** Emy Demkes, Dit is wat ik het afgelopen jaar leerde over de kleren die we weggoien (2019).

**21** See, among others: <http://www.ecap.eu.com>.

**22** <https://www.forbes.com/real-time-billionaires/#3ce75d7f3d78>

**23** Tax Policy Reforms 2022, OECD Available at: <https://www.oecd.org/tax/tax-policy-reforms-26173433.htm>

**24** <https://www.greenparty.org.uk/news/2020/01/06/greens-call-for-101-pay-ratio-between-chief-executives-and-workers-on-fat-cat-day/>

**25** Fixing Fashion: clothing and consumption sustainability, 2019, Environmental Audit Committee, Available at: <https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1952/report-summary.html>

**26** France's Anti-waste and Circular Economy Law, Ellen MacArthur Foundation, Available at: <https://ellenmacarthurfoundation.org/circular-examples/frances-anti-waste-and-circular-economy-law#:~:text=France%20is%20the%20first%20country,their%20unsold%20products.>

**27** A new look for the fashion industry, European Environmental Bureau, available at: <https://eeb.org/wp-content/uploads/2022/03/EPR-Briefing.pdf>

**28** <https://www.fashionrevolution.org/about/transparency/>

**29** Labels are usually the last piece of a garment to be sewn into the clothing. Therefore, many garment workers do not know for what brand they are producing clothing. Also, many workers are illiterate so even if they are able to see the label, they cannot read and reproduce it.

**30** United Nations Economic Commission for Europe (UNECE) (2021), Recommendation No. 46: Enhancing Traceability and Transparency of Sustainable Value Chains in the Garment and Footwear Sector. Geneva: UNECE; Francesca Romana Rinaldi et al. (2022), Traceability and transparency: enhancing sustainability and circularity in garment and footwear, Sustainability: Science, Practice and Policy, 18:1, 132-141.

**31** OECD, Introductory paper on SMEs and Responsible Business Conduct in the Garment and Footwear Sector Survey results and key considerations (2021), p. 7.

**32** Clean Clothes Campaign, Fashion's Next Trend: Accelerating Supply Chain Transparency in the Garment and Footwear Industry (2019), p. 6.

**33** United Nations Economic Commission for Europe (UNECE) (2021), Recommendation No. 46: Enhancing Traceability and Transparency of Sustainable Value Chains in the Garment and Footwear Sector. Geneva: UNECE.

**34** Small but Perfect is a project funded by the EU with the main aim of 'accelerating the accelerators' by working alongside business support organisations, to embed circularity, social and environmental sustainability for fashion SMEs. Additionally, it 'accelerates the policymakers' by mapping the policy landscape that affects sustainable and circular fashion SMEs, ensuring a lasting impact is made across the fashion industry from start to finish. <https://www.small-but-perfect.com/>

**35** Proposal for a Regulation establishing a framework for setting ecodesign requirements for sustainable products and repealing Directive 2009/125/EC, available at: [https://environment.ec.europa.eu/publications/proposal-ecodesign-sustainable-products-regulation\\_en](https://environment.ec.europa.eu/publications/proposal-ecodesign-sustainable-products-regulation_en).

**36** <https://eeb.org/wp-content/uploads/2022/10/Civil-society-open-letter-on-concerns-about-the-PEF-methodology-and-its-application-to-apparel-and-footwear-products-2022.pdf>

**37** Ibid.

**38** Ibid.



- 39** <https://opensupplyhub.org/>
- 40** United Nations Economic Commission for Europe (UNECE) (2021), Recommendation No. 46: Enhancing Traceability and Transparency of Sustainable Value Chains in the Garment and Footwear Sector. Geneva: UNECE.
- 41** United Nations Economic Commission for Europe (UNECE) (2021), Call to Action for Traceability, Transparency, Sustainability and Circularity of Value Chains in the Garment and Footwear Sector. Geneva: UNECE.
- 42** The Fashion Transparency Index is an open-source methodology providing a holistic framework to transparency disclosure, and covers over 250 indicators on human rights and environmental policies, practices and impacts. <https://www.fashionrevolution.org/about/transparency/>
- 43** The definition of Living Wage is based on the Anker methodology: 'Remuneration received for a standard work week by a worker in a particular [time and] place sufficient to afford a decent standard of living including food, water, housing, education, healthcare, transport, clothing and other essential needs including provision for unexpected events'. More here: <https://www.globallivingwage.org/>
- 44** See FTAO paper What is Living Income and why it needs to be included in Corporate Sustainability Due Diligence, p.4. Available at: <https://fairtrade-advocacy.org/wp-content/uploads/2023/01/Living-Income-Position-Paper-F.pdf>
- 45** Art. 7(a) and 11 ICESCR. Art. 23(3) and art. 25 UDHR.
- 46** Fashion focus: the fundamental right to a living wage, The Circle (2017), p. 16.
- 47** Fashion focus: a proposal for new EU legislation on a living wage, The Circle (April 2021), p. 10.
- 48** ILO, Purchasing practices and low wages in global supply chains: empirical cases from the garment industry (2017). Available at: [https://www.ilo.org/wcmsp5/groups/public/--ed\\_protect/--protrav/--travail/documents/publication/wcms\\_561141.pdf](https://www.ilo.org/wcmsp5/groups/public/--ed_protect/--protrav/--travail/documents/publication/wcms_561141.pdf)
- 49** Ibid.
- 50** See for instance the Living Income Reference Price model explained here: <https://fairtrade-advocacy.org/wp-content/uploads/2023/01/Living-Income-Position-Paper-F.pdf>
- 51** International Covenant on Economic, Social and Cultural Rights (ICESCR), 993 UNTS 3 (1933).
- 52** United Nations General Assembly, the Universal Declaration on Human Rights (UNHR) (1948).
- 53** UN Guiding Principles on Business and Human Rights: implementing the United Nations "Protect, Respect and Remedy" framework, 2011 HR/PUB/11/04 (2011).
- 54** OECD, OECD Due Diligence Guidance for Responsible Supply Chains in the Garment & Footwear Sector (OECD Publishing 2018) p. 74.
- 55** Good clothes fair pay, European Citizens' initiative. <https://www.goodclothesfairpay.eu/>
- 56** IndustriAll, Tradecraft Exchange and FTAO, Leveraging the Unfair Trading Practices Directive to benefit the Garment Sector (September 2021), p. 4. Available at: <https://fairtrade-advocacy.org/time-to-stop-unfair-trading-practices-in-the-garment-supply-chain>
- 57** The European Commission has identified the textile sector as a high risk sector for unfair trading practices in their green paper 'On unfair trading practices in the business-to-business food and non-food supply chain in Europe' COM(2013) 37.
- 58** Bocconi University, ESSEC Business School and Baker & McKenzie, Business relations in the EU clothing chain: from industry to retail and distribution, (2007) p. 126.
- 59** In this paper, the terms 'supplier' and 'manufacturer' are used interchangeably.
- 60** IndustriAll, Tradecraft Exchange and FTAO, Leveraging the Unfair Trading Practices Directive to benefit the Garment Sector (September 2021), p. 6.
- 61** Mark Starman, Purchasing practices and low wages in global supply chains: Empirical cases from the garment industry (2017), available at: [https://www.ilo.org/wcmsp5/groups/public/--ed\\_protect/--protrav/--travail/documents/publication/wcms\\_561141.pdf](https://www.ilo.org/wcmsp5/groups/public/--ed_protect/--protrav/--travail/documents/publication/wcms_561141.pdf)
- 62** Lawreniuk, S., Brickell, K., & McCarthy, L. (2022) Building Forward Worse: How COVID-19 has accelerated the race to the bottom in the global garment industry. Royal Holloway, University of London. Available here: <https://www.refashionstudy.org/publications>
- 63** Islam, M. A., Abbott, P., Haque, S and Gooch, F. (2023), Impact of Global Clothing Retailers' Unfair Practices on Bangladeshi Suppliers during Covid-19, University of Aberdeen. Available here: <https://www.transform-trade.org/blog/fashion-brands-exposed>
- 64** [fairtrade-advocacy.org/wp-content/uploads/2023/04/Fast-Fashion-Purchasing-Practices-in-the-EU.pdf](https://fairtrade-advocacy.org/wp-content/uploads/2023/04/Fast-Fashion-Purchasing-Practices-in-the-EU.pdf)
- 65** IndustriAll, Tradecraft Exchange and FTAO, Leveraging the Unfair Trading Practices Directive to benefit the Garment Sector (September 2021), p. 6.
- 66** Patsy Perry and Steve Wood, Exploring the International Fashion Supply Chain and Corporate Social Responsibility: Cost, Responsiveness and Ethical Implications (2019), available at: [http://epubs.surrey.ac.uk/849196/1/\\_\\_homes.surrey.ac.uk\\_home\\_System\\_Desktop\\_Exploring%20the%20International%20Fashion%20Supply%20Chain%20and%20CSR\\_Perry\\_Wood%20chapter%202019.pdf](http://epubs.surrey.ac.uk/849196/1/__homes.surrey.ac.uk_home_System_Desktop_Exploring%20the%20International%20Fashion%20Supply%20Chain%20and%20CSR_Perry_Wood%20chapter%202019.pdf)
- 67** See for example: Annie Kelly, Primark and Matalan among retailers allegedly cancelling £2.4bn orders in 'catastrophic' move for Bangladesh (2020), available at: <https://www.theguardian.com/global-development/2020/apr/02/fashion-brands-cancellations-of-24bn-orders-catastrophic-for-bangladesh>
- 68** IndustriAll, Tradecraft Exchange and FTAO, Leveraging the Unfair Trading Practices Directive to benefit the Garment Sector (September 2021), p. 4.
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players represent 67% and 33% are textiles companies. [https://euratex.eu/wp-content/uploads/EURATEX\\_FactsKey\\_Figures\\_2022rev-1.pdf](https://euratex.eu/wp-content/uploads/EURATEX_FactsKey_Figures_2022rev-1.pdf)

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**131** The 6 focus groups have been led by Francesca Romana Rinaldi and Emanuela Prandelli, Bocconi University, implementing the following structure: Introductory/Engagement Questions (10/15 min) i.e. How are you related to the sustainable and circular SMEs?; Exploration Questions (50/60 min) i.e. On your point of view, which are the most important sustainability issues to be solved in the fashion industry? On your point of view, which are the most important circularity issues to be solved in the fashion industry? Which do you believe are the main SMEs needs to be solved for a more sustainable and circular fashion? Which solutions would you suggest?; Exit Questions (10/15 min) i.e. Would you like to add anything else about sustainability, circularity and SMEs needs?.

**132** Further information can be found in Rinaldi F.R. et al. (2022), "Monitor for Circular Fashion Report 2022: Moving forward", SDA Bocconi School of Management [www.sdbocconi.it/circularfashion](http://www.sdbocconi.it/circularfashion).

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\* This Annex has been written by Francesca Romana Rinaldi ([francesca.rinaldi@unibocconi.it](mailto:francesca.rinaldi@unibocconi.it)), Small But Perfect Project Manager at Bocconi University and Director of the “Monitor for Circular Fashion”, SDA Bocconi School of Management and presented to the European Commission DG GROW on May 25th 2023 during the transnational collaboration workshop “Business toolkits to accelerate sustainable and circular fashion SMEs”, with the participation of Francesco Perrini, Full Professor, Department of Management & Technology Bocconi University, Associate Dean for Sustainability SDA Bocconi School of Management and Emanuela Prandelli, LVMH Associate Professor of Fashion and Luxury Management, Department of Management & Technology, Bocconi University.