What Brands Need To Know About The EU-wide Sustainability reporting

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Brands doing business in Europe will soon be subject to new sustainability reporting regulations - and experts recommend they start doing their homework today.

The Corporate Sustainability Reporting Directive (CSRD), introduced by the European Commission two years ago, will require companies selling products in European countries to adopt and adhere to EU-wide Sustainability Reporting Standards (ESRS). When the legislation is finalized, enterprises will face more stringent non-financial reporting rules centering on Environment, Social and Governance (ESG) issues.

Companies will be required to disclose information related to emissions and climate impact, based on standards aligned with the Paris climate agreement. They will also be tasked with reporting on water and chemical usage, worker wages and gender pay gaps.

The European Commission will adopt the first set of 12 standards common to all companies in June—and they'll apply to global organizations, not just EU-based brands.

Matthew Clark, shareholder and co-leader of the corporate national practice group at Dentons Cohen & Grigsby law firm, said that it stands to become "really important for companies to get ahead of this today," rather than waiting until reporting becomes mandated in January 2024. When it comes to ESG reporting, "This is not an area that's going to go away," he said, "and it seems as though it will become more stringent over time, not less."

Size matters

Firstly, companies must do their due diligence to learn if they will be covered by the CSRD.

Non-EU companies will be required to provide sustainability data as a part of their annual management reporting if they have seen a European turnover of more than 150 million euros for the previous two consecutive years, have a Europe-based subsidiary or branch with turnover over 40 million euros per year, or have a “large” European subsidiary. Small-to-medium enterprises (SMEs) will be subject to reporting if they are listed on any EU-regulated market, or stock exchange.

In June, the commission will finalize the information that companies will need to report, and how they will be required to present the information, Clark said.

Executives should be meeting with their finance teams to examine the unique requirements of both parent organizations and subsidiaries. Based on revenue, the directive might not apply to them today, but growth projections could help them determine a timeline for compliance. “If they expect that they’ll be hitting these numbers in the next two to three years…they could quickly find themselves subject to the CSRD and not be prepared,” Clark added. It’s incumbent upon enterprises doing business in the EU to run analysis as their businesses grow, “and the law is going to change on an annual basis,” he said. “There will be additional requirements—there’s no doubt about that.”

“There is no public register” that lists the companies that are covered, and it’s up to organizations to determine their responsibilities or risk being dinged, according to Akshay Sinha, senior advisor for global policy development and Asia-Pacific affairs at Sorini, Samet & Associates. Analysis from financial data firm Refinitiv shows that about 10,400 global, non-EU companies with an EU stock listing—along with more than 100 firms with over 150 million euros in revenue that are not listed in the EU—will be subject to the CSRD. About one-third are American, the group’s insights revealed, meaning that more than 3,000 U.S. firms will be immediately impacted by the rules.

Data points

The CSRD represents a critical component of the EU’s “ESG Web,” which supports the Green Deal’s goal of transitioning Europe into the first climate-neutral continent by 2050, Dentons research showed. Enterprises will be compelled to report on several ESG indicators in a dedicated section of their management report or annual disclosure using a single electronic, machine-readable format, the law firm said.

The process will involve “collecting the information, tabulating it putting it in the required format—and the regulation has quite specific requirements in terms of reporting digitized information,” Sorini’s Sinha said. While most public companies are accustomed to financial audits, auditing sustainability will present a learning curve. “It’s something that companies are going to have to figure out—and getting the information is very tricky.”

Reporting will require traceability across the entire textile and apparel value chain, beyond a company’s owned operations. “This is a very complicated industry, where there is a lot of opacity," he explained. "You've got multiple tiers, different relationships, and you don't have much information sharing." Historically, brands maintain relationships with their Tier 1 suppliers, and "even a lot of the big brands may not necessarily have information where their cotton or raw materials come from."

A significant contingent of companies has been investing more in traceability in recent years because of shifting demands from consumers and shareholders, however, and they may be better positioned when the directive takes effect. "They may not need to come up with something entirely new" when it comes to compiling information on their supply chains, but they will "probably have to increase the breadth and the depth of what they're already gathering right now," Sinha believes.

"I think it's going to be an area for most companies where currently, they might be collecting some of the data, but they're not collecting all of the data that's required," Clark added. What's more, companies covered by the legislation will have to ensure that what they've provided is accurate, verifiable, and organized for public disclosure under the standards of the CSRD.

"They're also going to have to start to look at their partners," he added, noting that there may be a "trickle-down impact" across the different tiers of the value chain. Firms may begin to require their suppliers to provide more information to feed into their reporting and add new rules to their vendor guidelines when developing relationships with new suppliers. "We expect the supply chain will continue to feel the impact of these regulations, even if they don't apply to them directly," Clark said.

When it comes to penalties for non-compliance, each EU member state will define its own course of action, he added. The European Union Commission has specified that the sanctions must be "effective, proportionate and dissuasive" if a company is found in violation of the CSRD. The member state in which it is doing business much make a public declaration describing the infraction and identifying the guilty party, issue a cease-and-desist order, and take pecuniary penalties against those responsible—though those actions, as of yet, have not been elucidated.

Sinha said the EU regulations may present some overlap with proposed climate legislation in the U.S. Last March the U.S. Securities and Exchange Commission (SEC) revealed a plan to require businesses to disclose information about their Scope 1 direct greenhouse gas (GHG) emissions, along with Scope 2 emissions generated by purchased electricity and other forms of energy. Groups would also be compelled to provide information about certain GHG emissions resulting from "upstream and downstream activities in its value chain (Scope 3)."

The reporting standards, if passed, would be "narrower" than what the CSRD will require in Europe, Sinha said. That means that companies who might have believed that compliance with the SEC law would help them cover their bases for CSRD are likely out of luck. "The SEC requirements, assuming they go through, will probably cover one or two of the environmental criteria" outlined in the CSRD. "There is no law that covers what the EU is demanding" at this time, he said.

Firms should be aware of the timeline for CSRD ratification and implementation, Clark said. The first 12 standards will be ratified in June, and European companies subject to the non-financial reporting obligation will be required to begin making their disclosures at the end of fiscal year 2024. Sector-specific reporting standards are expected to be released in June 2024. In January 2028, European subsidiaries of non-European companies with a turnover of more than 150 million euros in Europe will have to comply with new reporting requirements. "There's a cost to not being sustainable to our environment—our clients generally recognize that," Clark said.

Link

https://sourcingjournal.com/denim/denim-sustainability/need-to-know-information-eu-sustainability-reporting-standards-esg-matthew-clark-445079/

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Why Fashion Needs to Make a Bigger Effort to Be 'Plastic Free'

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During the pandemic, the fashion industry waxed poetic about taking a look at itself and the amount of clothing and number of deliveries it was pumping out. A few short years later, experts say much has stayed the same. But if fashion is to move to the future, these same authorities say sustainability must be at the forefront, which means moving away from synthetic, microplastic-producing textiles. And Plastic Free July might just be the opportune time to examine the benefits of moving toward natural fibers like cotton.

Created by the Plastic Free Foundation in 2011, Plastic Free July is a global movement that is working toward a world "free of plastic waste." Microplastic pollution, including tiny particles from synthetic textiles, is part of the problem the foundation says needs "drastic measures" to remedy.

Consider that this past July Fourth holiday, Earth recorded its hottest day on record. The United Nations says fossil fuels are "by far the largest contributor to global climate change," as the greenhouse gases they emit blanket the planet and trap the sun's heat, leading to global warming and climate change.

Yet, from high fashion to fast fashion, the industry continues to heavily rely on fossil fuel-based textiles like polyester, nylon and acrylic—even though such fabrics are responsible for microplastic fiber pollution that takes up to 200 years to decompose. These fibers come from our clothes, especially during the laundry cycle, when nearly 730,000 synthetic fibers can wash out with the effluent into our waterways, where they enter our food and water supplies.

As it stands, it is estimated there at least 15 million tons of microplastics polluting the ocean. The tiny fibers are also raining down from the sky. And, when inhaled, microplastics can pose serious health risks, especially to our respiratory systems.

Despite all this, ChangingMarkets.org says there has been no significant change over the last five years by the fashion industry in its usage of synthetic fibers, despite its long-stated desire to be more sustainable. A combination of choices by consumers, retailers and brands will be needed to stem the microplastic tide.

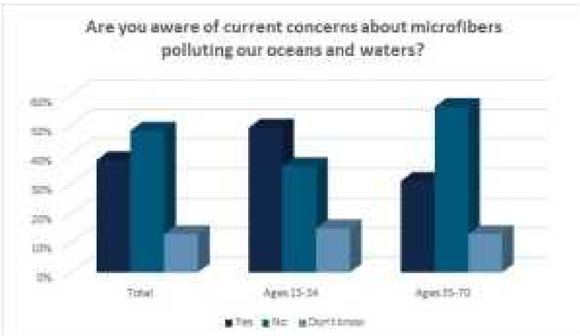
"Disrupting the stream of synthetic microfiber pollution starts right in our wardrobes," says Cotton Incorporated's Jesse Daystar, vice president and chief sustainability officer. "We have the ability to select fibers that originate from and return naturally to the earth, reinforcing the earth's natural cycles rather than feeding a cycle of ongoing plastic pollution."

Unlike petroleum-based textiles, cotton biodegrades relatively quickly because it is made of cellulose, an organic compound that is the basis of plant cell walls and vegetable fibers. The fibers break down naturally in landfills, similarly to other crops such as food and plants.

But since all clothes shed fibers during the laundering process, it becomes clear the more sustainable option is material that also biodegrades in water. Once again, cotton degrades far more quickly. When comparing cotton versus synthetic microfibers, research showed that after 243 days, cotton had 76 percent degradation, while polyester showed just 4 percent degradation. Additionally, cotton continued to degrade over time, while polyester's degradation plateaued after the test time.

The majority of consumers (61 percent) feel it is very important for the clothing industry to improve garment end of life by designing clothes to biodegrade, recycle or otherwise divert from landfills, according to Cotton Incorporated's 2022 Denim and Sustainability Consumer Survey.

From a consumer perspective, concern about microplastic pollution is growing. Currently, 38 percent of consumers say they are aware of current concerns about microfibers polluting our oceans and waters, according to *Lifestyle Monitor*™ research. That's up from 27 percent in 2018. Further, consumers under the age of 35 are significantly more likely (49 percent) to say they're aware of this microplastic pollution concern.



Deloitte's Karla Martin, global fashion and luxury leader, says there is a small but legitimate move toward less petroleum-based fabrics in the fashion industry, but it will take time.

"The analogy that comes to mind is organic food," Martin says in an interview with *Lifestyle Monitor*™. "It used to be that sustainable farming with little/no pesticides was available in very small markets at a very high price. But over time, and once large mass grocers figured out how to provide better quality products at the price their customers could afford, organic food naturally moved from being a luxury item to a ubiquitous option for all consumers. Fashion retailers will get there. It's just not a shift that can or will happen overnight. Right now, they are looking for ways to satisfy their broad consumer base—which means being able to either pass through the cost of sustainable fashion or get the cost way down."

And price versus sustainability is part of the problem for the industry. See, over half of consumers (58 percent) say that sustainability influences their clothing purchases, according to the Cotton Council International (CCI) and Cotton Incorporated 2021 Global Sustainability Survey. When they were asked why, 64 percent of those consumers say that it is important to do whatever to improve the environment, and 63 percent say that it is because biodegradability of their clothing is important to them.

On the other hand, 83 percent of consumers say price is an important factor when buying new clothes. That compares to 63 percent who say "environmental friendliness" is important.

"Cost, of course, always plays a role," Martin says. "Will the shift to more environmentally friendly fashion mean that apparel lasts a bit longer and costs a bit more to not only make but also purchase? Likely. And the reality many fashion retailers are facing is that while consumers often say they want sustainable products, when it comes down to it, they don't want to or can't pay the price. In fact, Deloitte's Gen Z and Millennial Survey found that while six in 10 Gen Zs and Millennials are willing to pay more for sustainable products, more than half think it will become harder to do so if the current economic situation does not improve. So, fashion retailers are balancing a fine line of what consumers say they want and what their actions show."

This is how a brand like Shein has grown so big, so fast. The online fast-fashion retailer specializes in low-priced apparel, like a wedding gown for less than $50. On top of that, new users to the site get free shipping and 15 percent off, putting the synthetic fiber bridal purchase at $41.65. In May, the Wall Street Journal reported Shein was valued at $66 billion, down from $100 billion a year ago but still a powerhouse in the industry. For comparison, Business Insider recently reported H&M's market cap was $20 billion while Zara's was $117 billion. Shein states it uses "on-demand manufacturing technology to connect suppliers to our agile supply chain, reducing inventory waste and enabling us to deliver a variety of affordable products to customers around the world."

However, most apparel on Shein is made of virgin fossil fuel-based materials like polyester. Shein itself states it adds 1,000 new styles daily. Good On You says this number could actually be between 2,000 and 10,000, leading to 5,000 to a million new garments daily. Other fast-fashion brands are producing 52 "micro-seasons a year." This hectic pace has put pressure on mainstream and designer brands to pump out more product. That adds up to a lot of synthetics entering the apparel market—and contributing to microplastic pollution.

This glut of apparel means more garments are finding their way to landfills. The average American disposes of 70 pounds of textiles every year, according to the Council for Textile Recycling. Just 10 pounds are donated, and the remaining 60 pounds end up in garbage dumps. The U.S. Commerce Department's National Institute of Standards and Technology says this translates to 85 percent of used apparel heading to landfills or incinerators. Just 15 percent gets reused or recycled.

In a study, the Massachusetts Institute of Technology reports synthetic textiles are a bigger problem than natural fibers when landfilled.

"Synthetic textiles, for example, commonly end up in landfills, but their fossil fuel-based process contributes to a bigger carbon emission footprint and higher consumption of abiotic (physical rather than biological) resources," states the MIT report.

While fashion designers and brands are happy to push new product into the market, they haven't had to deal with the end of a garment's life. That may soon be changing. As these mountains of discarded clothes are becoming such a problem, governments are starting to step in.

The EU and U.S. have proposed legislation that might not just curb overproduction, but discourage the use of petroleum-based fibers. The EU proposal would introduce labels on clothes that inform shoppers of how easily recyclable and environmentally friendly a garment is.

"As clothing comprises the largest share of EU textile consumption (81 percent), the trends of using garments for ever shorter periods before throwing them away contribute the most to unsustainable patterns of overproduction and overconsumption," reads the EU Commission's proposal. "Such trends have become known as fast fashion, enticing consumers to keep on buying clothing of inferior quality and lower price, produced rapidly in response to the latest trends. Moreover, the growing demand for textiles is fueling the inefficient use of non-renewable resources, including the production of synthetic fibers from fossil-fuels."

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In California, State Sen. Josh Newman introduced a bill earlier this year that would create a statewide collection and recycling program for textiles. Manufacturers of clothing and other textiles "would be required to implement and fund an extended producer responsibility (EPR) program that would enhance recycling and increase reuse in the sector," reads the bill.

"The cost burden for managing unusable textiles has fallen on thrifts, collectors and secondhand markets, while producers keep making products with no plan for what to do with them when they are no longer wearable," stated Doug Kobold, executive director of the California Product Stewardship Council at the bill's introduction.

In New York, State Sen. Brian Kavanagh also introduced legislation this year that would require EPRs for the collection, reuse, recycling or "proper" disposal of textiles. By Dec. 21, 2024, all manufacturers of apparel and other textile products will have to submit a plan for a collection program. Beginning July 1, 2025, no retailer, distributor or wholesaler can offer apparel products in the state unless the maker is participating in a collection program. Any entity found not in compliance is subject to civil penalties.

Although some brands and retailers might not welcome the long arm of the government, consumers may just embrace it. The majority of consumers (63 percent) who are aware of microplastic pollution realize much of this is caused by washing clothes made of synthetic fibers, according to the *Monitor*™ research. And more than six in 10 (63 percent) say they are bothered by brands and retailers that use synthetic fibers in their clothes. Further, two-thirds (66 percent) say their awareness of microplastic pollution will affect their future apparel purchasing decisions.

ChangingMarkets.org says there is encouraging news, as more than one-third of brands (34 percent) have decreased the volume of synthetics used in their collections.

Deloitte's Martin also sees changes happening in the industry.

"Fashion retailers understand the role they play and are looking for solutions to become more sustainable and address pollution—such as tech-enabled tools that are helping to drive a more circular business model and reduce waste," Martin says. "A recent report from Deloitte in partnership with Google Cloud discusses just how many major fashion retailers are using technology to boost their sustainability efforts."

Link

https://sourcingjournal.com/topics/lifestyle-monitor/fashion-polyester-plastic-free-july-microplastics-cotton-incorporated-synthetic-fibers-446538/

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European Commission adopts formaldehyde restriction

Industry operators have three years to comply with emission limits

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The European Commission has adopted a REACH restriction that sets emission limits for formaldehyde and its releasers, after six years of discussion.

Adopted on 14 July, the new rules establish an emission limit of:

- 0.062mg/m³ for formaldehyde in indoor air for the largest contributors, such as wood-based articles and furniture, and to the interior of road vehicles; and
- 0.08mg/m³ for formaldehyde in all other articles, such as textile, leather, plastic, construction materials or electronic products.

Industry operators have three years to comply with the restriction, while vehicle manufacturers have four years.

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The Commission said this will provide "sufficient time" to implement the restriction requirements, develop relevant analytical methods to test for emissions and deploy formaldehyde-free or low emitting formaldehyde products.

The European Commission asked ECHA in 2017 to prepare a restriction dossier on formaldehyde and its releasers. The dossier, submitted in 2019, initially proposed restricting the placing on the market of articles releasing the chemical at concentrations greater than 0.124mg/m³.

Discussions on the proposal were delayed with ECHA's Socio-Economic Analysis Committee's (SEAC), because of difficulties arising from the Covid-19 pandemic.

Formaldehyde is mainly used in the production of formaldehyde-based resins for adhesives and binders. It is classified as a carcinogen category 1B, mutagen category 2, acute toxicant category 3, skin corrosive category 1B and skin sensitiser category 1.

Guidelines

Formaldehyde producers said they support the emission limits but called for guidelines to help implement them.

Cefic sector group, Formacare, had lobbied against a paragraph in the draft restriction proposal that, it said, did not provide reliable testing conditions for the measurement of formaldehyde emissions from articles.

"This could have led to the use of non-standardised methods across Europe," said sector group manager, Paul Girard.

Competent authorities in the REACH Committee agreed to remove the paragraph. And they mandated ECHA to develop guidelines that will facilitate a harmonised implementation of the testing conditions for the measurement of the emissions.

"We believe this ECHA guidance is the necessary tool to bring clarifications to the text and ensure a more consistent use of available test methods across the EU member states," Girard said.

Link

https://chemicalwatch.com/808927/european-commission-adopts-formaldehyde-restriction

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