PRIMEIRO PARTNERS

The Daily Dispatch

Weekly Special Feature

January 21, 2022

The Myth of Sustainable Fashion

By: Kenneth P. Pucker – Harvard Business Review *(Published on January 13, 2022)*

Ryan McVay/Getty Images

Few industries tout their sustainability credentials more forcefully than the fashion industry. Products ranging from swimsuits to wedding dresses are marketed as carbon positive, organic, or vegan while yoga mats made from mushrooms and sneakers from sugar cane dot retail shelves. New business models including recycling, resale, rental, reuse, and repair are sold as environmental life savers.

The sad truth however is that all this experimentation and supposed "innovation" in the fashion industry over the past 25 years have failed to lessen its planetary impact — a loud wake up call for those who hope that voluntary efforts can successfully address climate change and other major challenges facing society.

Take the production of shirts and shoes, which has more than doubled in the past quarter century — three quarters end up burned or buried in landfills. This feels like a personal failure of sorts. For many years, I was the COO of Timberland, a footwear and apparel brand that aspired to lead the industry toward a more sustainable future. The reasons for the industry's sustainability letdown are complicated. Pressure for unrelenting growth summed with consumer demand for cheap, fast fashion have been a major contributors. So too are the related facts that real prices for footwear and apparel have halved since 1990 with most new items made from non-biodegradable petroleum-based synthetics.

To fully understand just how drastically the market has failed the planet in the fashion industry, let's look more closely at why sustainable fashion is anything but sustainable.

Environmental Impact

The precise negative environmental impact of the fashion industry remains unknown, but it is sizeable. The industry's boundaries spread globally and its multitiered supply chain remains complex and opaque. Thanks to trade liberalization, globalization, and enduring cost pressures, very few brands own the assets of their upstream factories, and most companies outsource final production. "There are still very, very few brands who know where their stuff comes from in the supply chain, and even fewer of them have entered into active relationships with those suppliers to reduce their carbon footprint," says environmental scientist Linda Greer. This complexity and lack of transparency means estimates of the industry's carbon impact range from 4% (McKinsey and the Global Fashion Agenda) to 10% (U.N.) of overall global carbon emissions.

Like all industries, fashion is nested in a broader system. It is a system premised on growth. While serving as an executive in the industry, never once did a CFO ask me if the business could contract to yield a more durable customer base. Nor did I ever hear from a Wall Street analyst making a pitch for Timberland to prioritize resilience ahead of revenue growth. This unyielding pursuit of growth, of "more," drives strategies that are specific to the fashion industry. Because it is hard to make a better performing or more efficient blouse, handbag, or pair of socks, to motivate consumption, the industry pushes change. Not better — just different, cheaper, or faster.

Combine the imperative of growth with accelerating product drops, long lead times, and global supply chains, and the result is inevitable overproduction. Notwithstanding improvements in technology and communications, predicting demand across tens of styles that are launched seasonally is much easier than doing the same for thousands of styles released monthly. Therefore, fashion inventories inevitably accumulate, and 40% of fashion goods are sold at a markdown. "The urge to sell more and get consumers to buy more is still in the DNA of the industry," says Michael Stanley-Jones, co-secretary for the UN Alliance for Sustainable Fashion. "Clothes have a very short life span and end up in the dump."

The speed of this hedonic treadmill continues to ramp up exponentially. Five years ago, McKinsey reported that shorter production lead times enabled by technology and revised business systems enabled brands to "introduce new lines more frequently. Zara offers 24 new clothing collections each year; H&M offers 12 to 16 and refreshes them weekly." This acceleration and proliferation of "newness" served as a constant draw to bring consumers back to sites and stores.

This level of speed already seems outdated and quaint. Shein (pronounced She-in) is now "the fastest growing ecommerce company in the world." According to SimilarWeb, its web site ranks number one in the world for web traffic in the fashion and apparel category. Selling tops for $7, dresses for $12 and jeans for $17, Shein makes Zara and H&M look expensive and slow. To deliver on low price points for fast changing styles, these "real time" brands rely on fossil fuel-based synthetic materials that are cheaper, adaptable, and more widely available than natural materials. As a result, polyester has grown to become the number one synthetic fiber and now represents more than half of all global fiber production. It is derived from nonrenewable resources, requires a great deal of energy for extraction and processing and releases significant byproducts.

Do as I Say, Not as I Do

Most discouragingly, increasing environmental damage has come at a time of heightened transparency, NGO persistence and escalating environmental concerns. It's not as if "sustainability" isn't on the agenda for fashion companies. Statements from fast fashion brands such as Primark (a retailer of $3.50 T shirts) that promise to "make more sustainable fashion affordable for all" are representative of the shift in zeitgeist. But several common steps that companies are taking are not having their intended effect:

Transparency: When Timberland issued its first corporate social responsibility report (CSR) in 2002, it was an outlier. Two decades later, all public fashion companies present their environmental, social, and governance performance in thicker, glossier forms. In this instance, volume is not a good proxy for progress. As a recent Business of Fashion report noted, "with no standardized language or regulated frameworks, deciphering what companies are actually doing is extremely challenging." Most CSR reports do not accurately quantify the full carbon emissions profile of fashion brands and remain unaudited by external parties.

Recycling: Recycling is oversold. This is due to a host of reasons including the inability to plan design at scale due to the variability of supply; limits to recycling technology (e.g., it remains near impossible to recycle goods made from multiple inputs); limited infrastructure; and shorter, lower-quality fibers resulting from recycled inputs and high cost. As a result of these obstacles, less than 1% of all clothing is recycled into new garments.

Worse yet, recycling does little to limit environmental damage while exacerbating inequality. Recycling bins in H&M and Zara stores are a guilt-free placebo that encourages ever more consumption. Most donated items end up in landfills in poor countries. At the same time, a recent life cycle analysis (LCA) on cotton jeans revealed that the climate change impact of buying and disposing of a pair of jeans is almost the same as upcycling the jeans into a new pair.

Bio-Based Materials: Another response to address the growing environmental footprint of fashion is the "next-gen materials industry." Innovators are now fermenting and growing bio-based substitutes for conventional livestock derived materials (e.g., leather) and fossil fuel-based synthetics (e.g., polyester). Some of these new bio-based textiles can be engineered to deliver performance features alongside properties such as biodegradability. Unfortunately, these innovations are plagued by high initial costs (relative to well-established alternatives that benefit from scale economies), large requirements for capital (to fund new production sites), resistance to change, and the lack of pricing for externalities (that allow fossil fuel-derived alternatives to be priced to exclude their true social costs).

New Business Models: Recognition that infinite growth on a planet of finite resources is a powerful impetus to develop new business models for fashion. As was the case with shared transport, these models tout their ability to dampen consumption of virgin resources and extend product lifecycles — but do they?

- **Resale**: The thrift industry is not new. In fact, sales at traditional thrift and donation stores remain more than two times the size of the nascent online resale industry. Be it online or in store, resale retailers reject most goods that are presented to them for sale. This percentage will likely grow because of the low prices and poor quality of fast fashion. Notwithstanding the recent growth of the space, over the past 10 years, the average percentage of carbon emissions obviated due to resale amounts to far less than one hundredth of 1%.

- **Rental**: Rent the Runway pioneered fashion rental. According to CEO Jennifer Hyman, the vision was that the "sharing economy could be expanded to the closet." Over the next decade the founders raised more than $500 million (in debt and equity), expanding into rental of accessories, plus sizes, kids apparel and physical retail. Rent the Runway recently went public. Rent the Runway and other rental services actively promote the environmental benefits of rental. However, here too, a closer look reveals that the rental model is not a sustainability solution. According to Rent-the Runway's own site, rental only reduces CO2 by 3% versus conventional new apparel buying.

While these new business models are attracting capital, it is not yet clear if they are viable businesses. For example, Rent the Runway has burned through hundreds of millions of dollars in funding and remains unprofitable. According to their S1 figures, Rent the Runway lost $171 million on $159 million of revenue in 2020 – more than a decade after it was founded. threadUp also remains in the red, having lost $48m on $186m in revenue last year

What Next?

Projections that I have developed forecast that the fashion industry will continue to grow over the next decade. The same trends that have powered its growth will more than overwhelm gains associated with bio-based materials and new business models. Unit growth will continue to be concentrated in lower cost, more damaging synthetics fiber products thereby exacerbating a raft of other environmental challenges including water scarcity and the growth of microplastics.

What then, can be done?

Retire "Sustainability": Less unsustainable is not sustainable. To their credit, Patagonia no longer uses the term. At the same time, fashion companies should not be allowed to simultaneously profess their commitment to sustainability, while opposing regulatory proposals that deliver the same end. Nike, for example, a brand that has committed to science-based targets, gets a poor rating from ClimateVoice for lobbying (as a member of the Business Roundtable) against the Build Back Better legislation and its provisions to address climate change.

Ultimately, businesses must disclose their lobbying efforts, use their clout to affect positive change while engineering a business system that is regenerative. To demonstrate progress, stewardship reports should become mandatory, more quantitative, thinner, more attune to planetary thresholds and be subject to annual external audits.

Redefine Progress: GDP was never intended to be the overarching system goal. It is limited in many ways. For example, it counts the number of cars an economy produces, but not the emissions they generate. The OECD is experimenting with a different marker focused on "wellbeing" that includes social, natural, economic, and human capital. India is considering an Ease of Living index. A new goal is needed to better balance societal progress.

Rewrite the Rules: Government rule makers must price negative externalities. Carbon and water, for example, should be taxed to include social costs. This would discourage their use, lead to innovation and accelerate the adoption of renewable energy. A governmental committee in the UK has also recommended a tax on virgin plastic (that would cover polyester). For the fashion industry, this would increase the price of synthetics making natural materials more attractive.

At the same time, governments should adopt extended producer responsibility (EPR) legislation (as has been done in California for several categories, including carpets, mattresses, and paint). Such laws require manufacturers to pay up front for the costs of disposal of their goods.

Additional legislation ought to be adopted to force fashion brands to share and abide by supply-chain commitments. At present, a law is being developed in the state of New York that would mandate supply-chain mapping, carbon emissions reductions in line with a 1.5-degree Celsius scenario and reporting of wages as compared to payment of a living wage. Brands with more than $100 million in revenue that are unable to live up to these standards would be fined 2% of revenue.

After a quarter century of experimentation with the voluntary, market-based win-win approach to fashion sustainability, it is time to shift. Asking consumers to match their intention with action and to purchase sustainable, more expensive fashion is not working. Were consumers really willing to spend more, sifting through claims, labels and complexity is too much to ask. At the same time, it is also "greenwishing" (a term coined by ex-investor Duncan Austin) to hope that investors, with their short time horizons and index-based performance goals, will pressure companies to respect planetary boundaries.

Fashion is often said to both reflect and lead culture — the industry has a once-in-history opportunity to demonstrate that creativity and respect for boundaries can lead to authentic sustainability.

Kenneth P. Pucker is a senior lecturer at the Fletcher School. He is an advisory director at Berkshire Partners and was formerly the chief operating officer of Timberland.

Source: Kenneth P. Pucker (2022), The Myth of Sustainable Fashion. Available at: https://hbr.org/2022/01/the-myth-of-sustainable-fashion

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TODAY'S TOP NEWS

Philex eyes SRO for Silangan mine capex

Philex Mining Corp. said it plans to partially fund initial capital expenditure (capex) requirements of the first phase development of its Silangan copper-gold project in Surigao del Norte through stock rights offerings.

ACEN set to switch on 60-MW wind farm in Vietnam

AC Energy Corp. (ACEN) plans to switch on its seventh renewable energy project in Vietnam the first quarter of this year, after it launched three jointly developed wind farms in the regional neighbor in 2021. They said that it is expecting the 60-megawatt (MW) Lac Hoa & Hoa Dong Wind in Soc Trang to be operating early this year.

Filipino-founded Nexplay eyeing NFT gaming

Nexplay, a new esports ecosystem and technology company founded by Filipinos, plans to enter high-growth areas, including non-fungible tokens (NFT) and blockchain gaming, its president said. "The games industry in the region and in the Philippines is at an inflection point," Nexplay President and Co-Founder Miguel Bernas said.

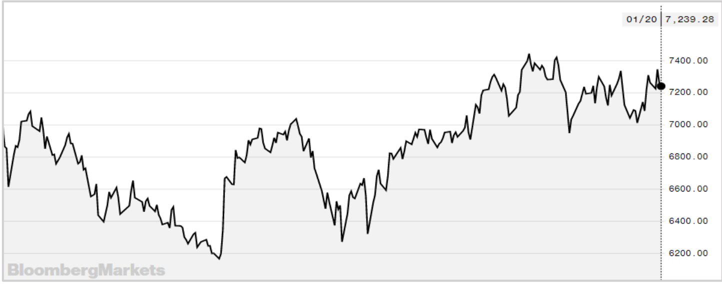
URC says Thai unit puts up 6-MW solar power

Universal Robina Corp. (URC)'s Thailand subsidiary has installed solar panels with a capacity of 6 megawatts (MW) solar panels on its factories and warehouses located southwest of Bangkok.

DBP grants P2.1B in loans for hydro-energy projs.

Development Bank of the Philippines (DBP) extended P2.1 billion in loans for two hydro-energy projects to support power supply for the Luzon and Visayas grids. The state-owned bank granted the loans to Matuno River Development Corp. and Taft Hydroenergy Corp., both majority-owned by Magis Energy Holdings Corp.

Philippine Stock Market Update



Previous Close:
7,239.28

1 Yr Return:
4.00%

Open:
7,225.22

YTD Return:
2.40%

52-Week Range:
6,080.94 - 7,475.75

Source:
Bloomberg

Foreign Exchange

As of January 20, 2022

US Dollar	Philippine Peso
1	51.43

BVAL Reference Rates

As of January 20, 2022

Tenor	Rate
1Y	1.448
3Y	3.008
5Y	4.082
7Y	4.604
10Y	4.911
20Y	5.086

Daily Quote

"A great work is made out of a combination of obedience and liberty.."

-- *Nadia Boulanger*

MORE LOCAL NEWS

BSP looking to forge bilateral deals

BSP is pursuing bilateral ties with central banks around the world for partnerships on FinTech and capital market development. “For [2022], we have in our pipeline negotiations with other central banks focusing on internal audit, digital payment initiatives, and cross-border establishments,” BSP Governor Benjamin E. Diokno said.

Crypto enthusiasm prompts UBP to launch trading

UnionBank of the Philippines plans to offer trading and custodial services for cryptocurrencies to capitalize on fast adoption of digital tokens in the Asian nation.

Asian markets, except PH, shake off Wall Street woes

The benchmark Philippine Stock Exchange Index (PSEi) continued to trek lower on Thursday while regional stocks were mostly higher after the Chinese central bank cut interest rates.

PH economy seen growing 7% in ’22

The Philippine economy is likely to expand at a faster pace of 7 percent this year on the back of sustained fiscal and monetary stimulus, reduced mobility restrictions and the attainment of herd immunity against COVID-19, the chief economist of Maybank Investment Bank said.

Solar PH, listed unit eye share swap deal

Solar Philippines Power Project Holdings Inc. said it is willing to sell over 10,000 megawatts of solar portfolio to listed unit Solar Philippines Nueva Ecija Corp. in exchange for shares. Solar Philippines said the potential asset for share swap deal could involve 20 solar projects to be exchanged for 24.37 billion SPNEC shares.

DOTR, Chinese firms sign P142-b PNR contract

The Department of Transportation said Wednesday it signed a P142-billion contract with Chinese companies to build the first 380 kilometers of the Philippine National Railway Bicol Project from Banlic, Calamba to Daraga, Albay.

2022 BoP deficit seen hitting 1.6% of GDP

THE Philippines' balance of payments (BoP) deficit will likely widen this year as imports continue to grow, Australia-based ANZ Research said. "Overall, the BoP deficit is expected at 1.6 percent of GDP (gross domestic product) in 2022 versus 0.9 percent of GDP in 2021," its economists said in a study released on Thursday.

ADB: Economy to grow on health care spending

THE growth of the Philippine economy could be lower than 6 percent this year due to the effects of the Omicron variant but increased health spending will enable the economy to grow by more than 7 percent, preliminary results of an Asian Development Bank (ADB) study showed.

Moody’s downgrades UBP on Citibank buy

MOODY’S Investors Service has downgraded its outlook for Union Bank of the Philippines to negative from stable following its recent acquisition of a consumer banking business that is seen to shrink the bank’s capital buffer.

Bohol transmission lines fully restored

THE National Grid Corp. of the Philippines (NGCP) has completed the restoration of 69 kiloVolt (kV) transmission lines in Bohol affected by Typhoon Odette. Thesaid line was restored last January 18, 13 days ahead of its target schedule.

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TODAY'S TOP ASIAN NEWS

Keppel data centre fund hits US$1.1b of commitments

KEPPEL Data Centre Fund II has achieved US$1.1 billion worth of total commitments at its final close with Asian Infrastructure Investment Bank (AIIB) joining as its latest investor.

Singtel acquires stake in Bank Fama International

SINGTEL Alpha Investments, a wholly-owned subsidiary of Singtel, has acquired a 16.3 per cent stake in an Indonesian bank for a cash consideration of 500 billion rupiah (S$48 million).

ByteDance's revenue growth slowed to 70% in 2021

[BEIJING/HONG KONG] ByteDance, the owner of short video app TikTok, saw its total revenue grow by 70 per cent year-on-year to around US$58 billion in 2021, according to 2 people familiar with the matter, slower growth than a year earlier as China tightens its grip on big tech companies.

Pegasus Asia debuts at 0.2% above IPO price

Pegasus Asia began its trading debut at $5.01 on the mainboard of the Singapore Exchange (SGX) on Friday (Jan 21), up one cent or 0.2 per cent above its initial public offering (IPO) price of $5.

Wilmar's India JV moves forward with planned IPO

Mainboard-listed agri-business Wilmar International has moved forward with the planned listing of its Adani Wilmar joint venture, with a preliminary prospectus filed in India this week.

TODAY'S TOP GLOBAL NEWS

Chinese property bond rally fades

A record-breaking rally in Chinese property bonds petered out on Thursday (Jan 20) amid growing investor doubt over how much a reported plan to allow developers greater access to funds from pre-sold homes will benefit distressed firms.

Alphabet's unit Verily in skincare deal with L'Oreal

[SAN FRANCISCO] Alphabet's money-losing health-tech arm Verily on Thursday (Jan 20) announced a new tie-up in its search for sustainable revenue, saying it would study skin health and explore new products with cosmetics maker L'Oreal.

Unilever won't raise £50b bid for GSK consumer arm

[FRANKFURT] Unilever on Wednesday (Jan 19) effectively abandoned its plans to buy GlaxoSmithKline's consumer healthcare business, saying that it would not raise its £50 billion (S$91.8 billion) offer that GSK previously rejected.

Gloomy Netflix forecast erases much of stock's gains

Netflix dashed hopes for a quick rebound after forecasting weak first-quarter subscriber growth on Thursday (Jan 20). The news sent its shares sinking nearly 20 per cent, wiping away most of its remaining pandemic-fuelled gains from 2020.

US commercial-property deals hit a record high

US commercial real estate deals reached a record high of US$809 billion last year as the market rebounded from the depths of the pandemic, according to Real Capital Analytics. Investor appetites for apartments and industrial properties were largely behind the surge, the firm said in a report Thursday (Jan 20).