EXECUTIVE SUMMARY

FRICTION POINTS IN FASHION AND TEXTILES

REMOVING BARRIERS AND ACCELERATING CLIMATE ACTION

A RESEARCH REPORT BY THE CLIMATE BOARD IN PARTNERSHIP WITH TEXTILE EXCHANGE

EXECUTIVE SUMMARY

1. **The Fashion & Textile industry is rapidly moving to include supply chain emissions in carbon reduction goals.**
    a. Recognizing that more than 90% of emissions come from indirect (Scope 3) sources, fashion and textile companies are stepping up efforts to partner with supply chain companies to develop innovative ways to reduce GHG emissions.
    b. All study participants plan to incorporate Scope 3 emission reductions in their climate change strategies, with approximately half implementing explicit goals, often in the form of Science-Based Targets.
    c. Fiber strategies play a central role in company efforts to become more sustainable, and companies that directly link fiber strategies to GHG targets show more significant reductions in GHG emissions.

2. **The Fashion & Textile industry is not on track to achieve Scope 3 emissions goals.**
    a. Early evidence indicates as many as 2/3 of brands and retailers that have announced Scope 3 targets are not on track to achieve absolute Scope 3 emission reductions.
    b. While there has been significant progress in reducing Scope 1 and 2 emissions in the Fashion & Textile industry, these represent less than 10% of total emissions for brands and retailers.
    c. Several companies have started mobilizing to reduce Scope 3 emissions. Still, few have begun to achieve reductions commensurate with Science-Based Targets or Textile Exchange's Climate+ goal of 45% reduction in the pre-spinning phase of textile fiber and material production.

3. **The aggressiveness of publicly announced goals is not correlated with actual carbon reductions.**
    a. Companies are under pressure from stakeholders, notably ESG-oriented investors, to commit publicly to aggressive climate goals. We observe a goal paradox in that the data does not demonstrate a strong correlation between setting bold goals and reducing GHG emissions, particularly when it comes to progress toward Scope 3 reductions.
    b. While setting goals is not a necessary or sufficient condition to enable GHG reductions, it can be helpful to mobilize action when tightly tied to tactical activities.
    c. Even companies that have not publicly announced bold Scope 3 emission goals have succeeded in accelerating GHG reductions to match their goal-setting counterparts. These companies characteristically define their core mission around sustainability

4. **Fiber strategies that incorporate a more sophisticated understanding of GHG emissions related to fiber and material choices achieve better results than those that use more simple definitions of sustainable fiber.**
    a. Companies that use loose definitions of "sustainable fibers" are often disappointed when they achieve "sustainable fiber" adoption goals but barely move the needle on GHG reductions.
    b. Companies that explicitly link their definition of "sustainable fibers" to lower GHG-emitting inputs are more effective in driving Scope 3 emission reductions.

5. **Shifting to supply that progresses along Textile Exchange's Preferred Fiber and Materials Matrix is statistically correlated with lower Scope 3 emissions.**
    a. Although the classifications do not explicitly focus on GHG impact, companies that adopt the preferred fibers classified by the matrix generate more GHG reductions.
    b. The discipline of adhering to standards and focusing on the details of adoption drives organizations to more significant GHG reductions and better sustainability performance overall.

6. **Companies are experimenting with a wide range of methods to reduce fiber- and material-related emissions, acting as a broad, multi-faceted climate solutions laboratory.**
    a. There isn't a magic bullet but many little details that people are experimenting with, and some are more successful than others.
    b. The climate journey can be divided into phases, each of which builds on and extends reach and activities:
        i. Defining GHG-Reduction Success
        ii. Mobilizing the Organization
        iii. Transforming the Supply Chain
        iv. Extending Impact
    c. Each stage of the journey has hurdles, or friction points, that slow progress. Companies that address these friction points systematically have shown accelerated strides in transitioning to preferred fibers and materials and reducing GHG emissions.

JOURNEY STAGE ONE

DEFINING GHG-REDUCTION SUCCESS

Effective practices translate high-level strategic environmental objectives to internal goals and methods that drive behavior change.

FRICTION POINTS

- Internal fiber and material goals are not demonstrably linked to carbon reductions.
- Carbon reduction is a long-term endeavor supported by short-term processes.
- Goals are too generic to keep pace with long-term objectives.

Successful practices:

a. **Top-Down Fiber Mandates** address alignment issues by determining the mix of fiber and material necessary to achieve GHG reduction goals centrally and cascading quantifiable KPIs on the target mix to design and operational units.

b. **Bottom-Up Goal Linking** achieves goal alignment by empowering decision-making teams with tools that facilitate scenario analysis and selection of low-carbon fibers and materials.

c. **Graduated Targets for Fiber and Materials** drive advancement in goals overtime to meet larger objectives and adapts targets in ways that meaningfully impact behavior by unit, brand, or function.

d. **Long-Range Carbon Intervention Budget** takes budgeting beyond the annual cycle by establishing longer-term resourcing commitments to support larger and longer-term carbon abatement activities.

JOURNEY STAGE TWO

MOBILIZING INTERNAL RESOURCES

Best practices ensure everyone in the organization has the knowledge, information, and empowerment to make the right carbon-conscious decisions.

FRICTION POINTS

- The drive for better GHG intensity measures for fiber and materials results in “analysis paralysis.”
- People lack sufficient knowledge to make the right changes.
- Organizational efforts are fragmented because of operational and information silos.
- Carbon impact is not integrated in decision analysis.

Successful practices:

a. **One-on-One Board Education** creates a two-way, ongoing communication that equips Board members with a more profound understanding of climate change, sustainability, and the impact of their company’s activities and decisions.

b. **Sustainability Champions** spearhead sustainability efforts and help ingrain a sustainability mindset throughout their teams.

c. **Product Level Carbon Budgets** sets explicit limits on the amount of GHG emitted in each stage of development, production and distribution for each product line.

d. **Carbon Pricing (Internal and Shadow Pricing)** helps decision-makers integrate carbon impacts explicitly into their decision-making processes.

JOURNEY STAGE THREE

TRANSFORMING THE SUPPLY CHAIN

Companies that cultivate deep relationships and provide support within their supply chains to address climate-change challenges are transforming the industry.

FRICTION POINTS

- Supplier goals, practices, and constraints are opaque to their purchasers.
- Supplier relationships traditionally focused on cost and quality rather than sustainability.
- Large-scale, transformational transitions require large-scale investments.

Successful practices:

a. **Sustainability Veto** puts environmental and social concerns on equal footing to cost, value, and quality in selecting suppliers.

b. **Supplier Commitment to Science-Based Targets** extends corporate commitments into the upstream supply chain to drive down GHG emissions.

c. **Renewable Energy Support for Supply Chain** facilitates the transition of suppliers to renewable energy by providing financing to ease the financial burden of making the transition.

d. **Carbon Insets** can help aggregate financial support for more significant and longer-term projects in organizations' direct supply chain, or the broader supply shed, driving more comprehensive industry transformation.

JOURNEY STAGE FOUR

EXTENDING IMPACT

While the focus of this study was fiber and materials for Scope 1, 2, and 3, The Climate Board also took a snapshot of practices that complement, extend, and accelerate climate impact.

FRICTION POINTS

- Nature and pace of government policy is highly variable and unpredictable.
- Financing mechanisms lag the pace of innovation and demand for suitable financial vehicles.
- The timeline for R&D/approval of new developments is long.

Successful practices:

a. **Field, Farm, and Forest Interventions** jump the long and complex queue of intermediate suppliers, adding another critical lever in the push to move Scope 3 emissions.

b. **Financial Market Innovations** focus on extending impact beyond the supply chain to mobilize capital and accelerate change.

c. **New Business Models** are the emerging experiments to advance sustainability and circularity in fashion and textiles.

INSIGHTS FOR FURTHER ACTION

Each conversation with an industry leader brings insight into successes and failures that move the ball forward. These questions, top-of-mind for our industry leaders, give a peek at the next generation of experiments we can expect to see in the global Climate Solutions Lab. Many of these areas warrant in-depth research in their own right and will be the topics of future studies.

SUPPLY CHAIN TRANSFORMATION: FIELD, FARM, AND FOREST INTERVENTIONS are supply chain activities targeting sources at the agricultural level. By jumping the long and complex queue of intermediate suppliers, brands are adding another critical lever in the push to move Scope 3 emissions.

- What sourcing areas are most amenable to influence from retailers and brands? To what extent do they move the needle on emissions?
- How can best practice supply chain interventions be scaled rapidly?

FINANCIAL MARKET INNOVATIONS extend impact beyond the supply chain to mobilize capital toward driving change. We expect a proliferation of new vehicles and approaches to financing a more sustainable future.

- What new financing vehicles and practices are emerging to mobilize external capital and collective action to accelerate transitions?
- Which techniques and approaches are effective in financing transitions internally?

NEW BUSINESS MODELS are emerging experiments to advance sustainability and circularity in fashion and textiles. We see green shoots among these and best practices that support and facilitate climate innovation.

- Which new business models are effective in reducing GHGs? What impact do initiatives like adding a recycled clothing line or offering leased clothing have on emissions?
- How can organizations effectively create an environment and support system that incubates new ideas and innovations in the climate space?

MANAGING CUSTOMER IMPACT

- How do organizations communicate sustainability efforts without over-burdening customers? How does this impact the buying experience?
- What are the best practices and proven techniques to evaluate end-of-life product impact?

CLOSING THE INNOVATION GAP

- Which new and emerging technologies can significantly reduce GHG emissions?
- What steps are necessary to spur adoption, either individually or collectively? How do we bring new ideas to market faster?

SETTING CLIMATE-RELATED KPIS

- Which KPIs influence corporate, individual, and supplier behavior? How can these be aligned with external climate commitments?
- What compensation and incentive practices are effective in linking GHG to corporate behavior?

UNDERSTANDING ESG INVESTORS

- What are best practices in meeting and anticipating the evolving demands of ESG investors?
- What approaches effectively balance the demand for greater transparency with the challenges of measurement and reporting?

PARTICIPANTS

All interactions with participants were conducted under the Chatham House Rule: the information they provided could be shared, but the identity or affiliation of the contributor is protected. No comments, quotations, or other non-public information within this report has been attributed without the source's explicit permission. We thank all participants for their candid contributions and insights.

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About The Climate Board

The Climate Board's mission is to accelerate business action on climate change. We do this by empowering corporate executives with practical, cost-effective solutions to climate and sustainability challenges. We leverage the experience and insights of industry practitioners, then add our own research and analytical expertise to provide implementable best practices, decision-support tools, and actionable data. The result is authoritative and timely guidance that produces superior climate outcomes.

For more information, **visit www.theclimateboard.com**

The Climate Board accelerates business action on climate change, leveraging the insights and knowledge gained by companies to offer practical, cost-effective solutions to climate and sustainability challenges.

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