

ACS[®]

TREASURY MEETING

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A preliminary analysis of the opportunities for reducing VAT on sustainable fashion brands and associated services.

Report Structure

1) Fashion and its changing landscape

a) The Value of Fashion, UK

Estimates of the contribution of the fashion industry to the UK economy, range from £28.1 to £50 billion, when spillover impacts on other industries, such as tourism are accounted for. This accounted for 2.7% of the pre-pandemic GDP¹ and includes manufacturing, distribution and other effects such as education, advertising and media. The industry is an important source of jobs. Consisting of 59,970 enterprises (99.7% small and medium), it employs more than half a million workers, mostly in the retail sector (other estimates indicate an employment level of 880,000).²

Prior to the pandemic, creative industries contributed £116 billion to the UK economy: that's more than aerospace, automotive, life sciences and oil and gas sectors combined. Design and designer fashion contributed £3.6bn in GVA and employed 171,000 people. In 2019, the fashion industry export revenues totaled £10 bn and it is one of the top 3 drivers of innovation.³

There needs to be a refocus on arts in the education system, as employers are increasingly demanding creative skills. Between 2010 and 2020 there was a 37% decline in arts GCSE entries and a 30% decline in arts A-Level entries and during Covid-19 the number of hours spent teaching arts subjects in secondary schools has decreased. Moreover, student entries into Design and Technology (D&T) at GCSE have halved over the last decade, new research from the Education Policy Institute (EPI) shows.⁴ This is impacting on opportunities to boost workforce numbers and is pertinent to post Brexit growth and boosting UK talent pipeline capacity. Creative critical thinking skills are core not only to innovation, but across a range of industries including the fashion and textiles industry, especially as R&D creates job

¹Oxford Economics, 2016, The Economic Value of the UK Fashion Industry https://www.britishfashioncouncil.co.uk/uploads/files/1/J2089%20Economic%20Value%20Report_V04.pdf

² Inter Departmental Business Register (IDBR) 2021, UK Business: Activity, Size and Location

³ DCMS 2022, DCMS Sectors Economic Estimates <https://www.gov.uk/government/collections/dcms-sectors-economic-estimates>

⁴ Education Policy Institute, 2022, A spotlight on Design and Technology study in England <https://epi.org.uk/publications-and-research/a-spotlight-on-design-and-technology-study-in-england/>

opportunities where science and technology intersect with sustainability and textiles innovation.

b) Sustainable Fashion Defined and Growing

i) Summary of Sustainable Fashion

Sustainability in fashion broadly refers to two key areas: the social and the environmental. The growth of the sustainable fashion movement can be tracked in direct reaction to the ever increasing pace of production and consumption of fashion globally⁵.

Social sustainability in fashion predominantly refers to the fair and ethical treatment of workers in the fashion and manufacturing supply chain - from field, factory, to shop. Measures for social sustainability include rate of pay (meeting minimum or living wages), *implemented* health and safety policies, responsible purchasing practices, and the presence of strong dialogue structures⁶ or unions.

Environmental sustainability attempts to address the numerous ecological impacts of the fashion industry, this can include overproduction and leading to clothing waste, the production stage itself including water and resource consumption, the use of dyes and chemicals in the production of fabrics and clothing treatments, as well as the use of man-made vs natural fibres.

It is common to split the two issues out like this, and fashion brands can often be seen to address one or the other. However, they are interlinked and often any 'environmental' aspect directly impacts the 'social', and vice versa. For example, in the social definition above, workers in the supply chain were referred to but there are also those who are indirectly affected by fashion production - including those living near treatment plants⁷ and in areas where clothing waste is dumped⁸.

ii) Growing interest and value of sustainable fashion, and share of the fashion market.

⁵ Global News Wire, 2022, Global Ethical Fashion Market Opportunities and Strategies Report 2022-2030: Recycling And Upcycling, Increased Transparency Through Storytelling, Animal-Free Leather, Vegan Fashion, <https://www.globenewswire.com/en/news-release/2022/04/01/2414593/28124/en/Global-Ethical-Fashion-Market-Opportunities-and-Strategies-Report-2022-2030-Recycling-And-Upcycling-Increased-Transparency-Through-Storytelling-Animal-Free-Leather-Vegan-Fashion.html>

⁶ Fashion Revolution, 2022, How Fashion Brands Can Take Action on Social Sustainability, <https://www.fashionrevolution.org/how-fashion-brands-can-take-action-on-social-sustainability/>

⁷ The Guardian, 2017, H&M, Zara and Marks & Spencer linked to polluting viscose factories in Asia, <https://www.theguardian.com/sustainable-business/2017/jun/13/hm-zara-marks-spencer-linked-polluting-viscose-factories-asia-fashion>

⁸ ABC News, 2021, Dead White Man's Clothes, <https://www.abc.net.au/news/2021-08-12/fast-fashion-turning-parts-ghana-into-toxic-landfill/100358702>

The market is expected to grow from \$10bn in 2025 to \$15bn in 2030 at a CAGR of 9.0%⁹, with the organic fashion market expected to grow the fastest at a CAGR of 18.4% during the same period. To put into perspective, the fast fashion market is currently valued at \$70bn and is expected to grow to \$200b by 2030.¹⁰

There is an increase in demand for sustainable fashion practices, especially by the younger consumers, as a part of an overall increase in changing habits to reduce environmental impact. Majority of consumers now take into consideration factors such as source of material and a brand's commitment to sustainability when purchasing fashion items. Moreover, there is a shift away from fashion items that are easily discarded towards better quality pieces which gives room to brands that prioritise quality and durability over trends and newness. Furthermore, half of younger consumers are willing to buy secondhand products, necessitating a better recycling infrastructure.¹¹ Younger workers are also willing to pay more for sustainable products, with estimates ranging from 15%¹² to 50%.¹³

Additional evidence of an increasing demand for sustainable fashion business solutions can be found in the activities of large brands and businesses. When large brands and retailers start to invest in alternative business models, this should stand as evidence of a growing market for these services as well as the potential this holds for the UK economy. For example, ASOS recently launched a partnership with the clothing resale service Thrift¹⁴; Recover, producer of sustainable, premium recycled

⁹ Research and Markets, 2022, "Ethical Fashion Global Market Opportunities And Strategies To 2030, By Type, Product, End-user" <https://www.globenewswire.com/en/news-release/2022/04/01/2414593/28124/en/Global-Ethical-Fashion-Market-Opportunities-and-Strategies-Report-2022-2030-Recycling-And-Upcycling-Increased-Transparency-Through-Storytelling-Animal-Free-Leather-Vegan-Fashion.html>

¹⁰ Fashion United, 2021, Report: Fast fashion to be worth over 200 billion dollars by 2030 <https://fashionunited.uk/news/fashion/report-fast-fashion-to-be-worth-over-200-billion-dollars-by-2030/2021112559600>

¹¹ McKinsey & Company, 2020, Survey: Consumer sentiment on sustainability in fashion, <https://www.mckinsey.com/industries/retail/our-insights/survey-consumer-sentiment-on-sustainability-in-fashion>

¹² McKinsey & Company, 2022, In search of fashion's sustainability seekers, <https://www.mckinsey.com/industries/retail/our-insights/in-search-of-fashions-sustainability-seekers>

¹³ Vogue Business, 2020, How much more would you pay for a sustainable T-shirt?, <https://www.voguebusiness.com/sustainability/how-much-more-would-you-pay-for-a-sustainable-t-shirt>

¹⁴ ASOS, 2022, ASOS launches second circular design collection and trial partnership with Thrift+, <https://www.asosplc.com/news/asos-launches-second-circular-design-collection-and-trial-partnership-thrift/>

cotton fibre and cotton fibre blends, just received a new \$100 million investment¹⁵; and John Lewis has partnered with childrenswear rental group The Little Loop¹⁶.

c) The Sustainable Consumer

i) Brief analysis of data on increased price consumers are willing to pay for sustainable clothing.

UK consumers spend the most in Europe on clothing and footwear. In 2019, UK consumers spent more than 82 billion euros on clothing and footwear, compared to 45 billion euros in France and 65 billion euros in Italy¹⁷. As clothing has become cheaper over time, both in absolute terms and relative to income, clothing production doubled from 2000 to 2014. Various other estimates show high demand for fast fashion items that are easily discarded and replaced, with the average life cycle of 3.3 years^{18,19} which contributes to the negative environmental impact of the industry. Seventy-two per cent of clothing is made of non-biodegradable materials, which can remain in the landfills for up to 200 years.²⁰

With decades of artificially suppressed pricing through cheap labour and mass production, consumers have come to expect low prices for clothing items, sometimes as little as £2 for a T-shirt²¹. Therefore, the issue of how much fashion customers will be willing to pay for sustainable items is complex.

Consumer Pricing Views

Recent studies have demonstrated a willingness among consumers to pay more for sustainable items. A KPMG global study of 5269 people, which included over 1000 respondents from London, found that 37% and 31% of respondents willing to pay more

¹⁵ Recover, 2022, Recover Accelerates Growth With \$100 Million Minority Equity Investment Led By Goldman Sachs Asset Management, Partnering With Existing Investor STORY3 Capital Partners, <https://recoverfiber.com/newsroom/recover-accelerates-growth-goldman-sachs>

¹⁶ Fashion United, 2022, John Lewis enters childrenswear rental market with The Little Loop, <https://fashionunited.uk/news/retail/john-lewis-enters-childrenswear-rental-market-with-the-little-loop/2022052663296>

¹⁷ Eurostat, 2020, Final consumption expenditure of households by consumption purpose, https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_CO3_P3__custom_3046354/default/table?lang=en

¹⁸ WRAP, 2017, Valuing Our Clothes: the cost of UK fashion, https://wrap.org.uk/sites/default/files/2020-10/WRAP-valuing-our-clothes-the-cost-of-uk-fashion_WRAP.pdf

¹⁹ WRAP, 2020, Valuing Our Clothes: The Cost of UK Fashion. <https://wrap.org.uk/resources/report/valuing-our-clothes-cost-uk-fashion>

²⁰ SustainableFashion.Earth, 2019, *Synthetic fibres used in 72% clothing items can sit in landfills for 200 years.* <https://www.sustainablefashion.earth/tag/love-your-clothes/>

²¹ Environmental Audit Committee, 2019, Fixing Fashion: clothing consumption and sustainability, <https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1952/1952.pdf>

for sustainable fashion would pay 10% and 25% more, respectively, with 12% willing to pay 50% more²².

When looking at a direct breakdown of UK consumers a similar study from IMB and Morning Consult, in 2020, revealed that compared to consumers in other European countries, UK customers were the least willing to pay more for sustainable clothing: “Brits say they would typically spend... £9.45 (€10.36) on a T-shirt, and would stretch to £11.39 (€12.40) for a sustainable one”²³.

However, the above statistics and examples focus on the suggestion of ‘more sustainable’ *items*. The principle of a circular economy relies on a new approach to business and in turn fashion business models, not all of which will rely on consumers needing to be convinced to buy *new* items at a higher price point - see section 2a.

ii) Recognition of the complex greenwashing phenomenon - its demonstration of the growing value of sustainability to the market and consumer.

There is evidence to suggest that confusion surrounding the legitimacy of claims when it comes to sustainable fashion may be a key factor holding consumers back from investing in higher price points.

EY UK surveyed UK Shoppers in 2021, finding that 56% of respondents cited “misleading product information”²⁴ as a deterrent to buy, with 51% not trusting brands and retailers to provide them with the sufficient information to make sustainable choices.

Greenwashing refers to the practice of brands and retailers, in the fashion industry as well as others, making claims in the marketing of their products that may make them appear to be more ‘green’, ‘sustainable’, or ‘circular’ than in reality. This causes consumers to believe that the item they are purchasing is legitimately a ‘greener’ choice when this may not be the case. The Changing Markets Foundation found in 2019 that 59% of ‘green claims’ made by fashion brands and retailers were misleading or unsubstantiated²⁵.

²² KPMG, 2019, Sustainable fashion: A survey on global perspectives, <https://assets.kpmg/content/dam/kpmg/cn/pdf/en/2019/01/sustainable-fashion.pdf>

²³ Vogue Business, 2020, How much more would you pay for a sustainable T-shirt?, <https://www.voguebusiness.com/sustainability/how-much-more-would-you-pay-for-a-sustainable-t-shirt>

²⁴ EY, 2021, UK shoppers say high prices and product confusion stop them shopping more sustainably, EY survey finds, https://www.ey.com/en_uk/news/2021/07/uk-shoppers-say-high-prices-and-product-confusion-stop-them-shopping-more-sustainably-ey-survey-finds

²⁵ Changing Markets, 2021, Synthetics Anonymous: Fashion brands’ addiction to fossil fuels, https://changingmarkets.org/wp-content/uploads/2021/07/SyntheticsAnonymous_FinalWeb.pdf

The Consumer Market's Authority (CMA) introduced their Green Claims Code in late 2021, and the start of its review of environmental claims in fashion retail at the start of 2022, it can be predicted that such oversight and rigorous checks on sustainability claims, potential for greenwashing by brands will start to diminish, providing consumers with greater confidence over their purchasing choices.

However, any consideration of providing rewards for sustainable commitments or business models needs to consider how to mitigate against greenwashing of business models and practices in order to benefit from the growing interest and demand for sustainable practices.

d) Circular/Sustainable Policy and Legislation Landscape

i) Governmental and Cross-party

Waste Prevention Programme for England - Consultation on Extended Producer Responsibility for Textiles

In early 2021, the Department for Environment, Food and Rural Affairs announced plans for a new 'Waste Prevention Programme for England which led to a consultation on an Extended Producer Responsibility scheme for textiles, following its EPR for packaging that takes effect from 1 January 2023²⁶.

The intention of an EPR bill would, as the name suggests, place responsibility on the 'producer', in many cases the brand/retailer, for what happens to the items they produce/create at the end of life, and thus encouraging a reduction in production as well as increase in sustainable practices and designing for longevity and can contribute to a more circular economy.

Environmental Audit Committee: Fixing Fashion Report

In 2019 the Environmental Audit Committee published the *Fixing Fashion: clothing consumption and sustainability* report as part of its inquiry into the environmental impact of the fashion industry. Key recommendations from the report included:

- strengthening of the modern slavery act
- work with industry to trace raw materials in supply chains to tackle social and environmental abuses
- reform taxation to reward fashion companies designing products with lower environmental impacts and penalise those that do not
- introducing a 1p garment levy to tackle fast fashion production
- investigate extending virgin plastics tax to textile products containing less than 50% recycled PET
- ban incineration or landfilling of unsold stock that could be reused or recycled
- include eco-design principles into the Resources and Waste strategy

²⁶ DEFRA, 2022, Guidance, Packaging waste: prepare for extended producer responsibility, <https://www.gov.uk/guidance/packaging-waste-prepare-for-extended-producer-responsibility>

- reduce VAT on repair services²⁷.

In response to the report, the UK Government rejected all of the recommendations. The inquiry was then closed, but was reopened as 'Fixing fashion: follow up' following pressure from industry and policy groups. So far a number of meetings have been held, but no new reporting produced yet.

Ethics and Sustainability in Fashion All Party Parliamentary Group (APPG): Cleaning Up Fashion Report

In 2021 the Ethics and Sustainability in Fashion APPG, and its secretariat Fashion Roundtable launched its Cleaning Up Fashion report, including direct insights from APPG conducted survey and evidence sessions.

The report found evidence in support of, and advocated through recommendations for, the introduction of:

- VAT and incentives for “companies with proven positive social and environmental contributions
- Tax incentives to support onshoring of fashion manufacturing
- Extended producer responsibility for textiles
- Investment and support into skills development to support the growth of green jobs and skills in the UK workforce
- Expedition of promised changes to the Modern Slavery Act
- Introduction of a garment adjudicator (the bill for which had its first reading in the House of Commons on 14th July 2022).

69% of those surveyed in the Fashion Roundtable survey, on behalf of the APPG, responded positively when asked “whether Government support should be provided to embed sustainability into business practice”²⁸.

Scottish Government - A fairer, greener Scotland

The report introduced a £2m Textile Innovation fund, planned to be delivered over a period of two years, to support businesses in the textile sector to address textile waste and ‘throwaway culture’ in order to contribute to reaching Scotland’s waste reduction targets. Zero Waste Scotland are administering and managing this fund, known as the Circular Textiles Fund, on behalf of the Scottish Government. We have reached out to industry to help us shape the Fund. It was launched officially on 24th June 2022²⁹.

²⁷ Environmental Audit Committee, 2019, Fixing Fashion: clothing consumption and sustainability, <https://publications.parliament.uk/pa/cm201719/cmselect/cmenvaud/1952/1952.pdf>

²⁸ APPG for Ethics and Sustainability in Fashion, 2021, Cleanningn Up Fashion Report, https://static1.squarespace.com/static/5a1431a1e5dd5b754be2e0e9/t/60ec3d173ba7d954d567ee0d/1626094876047/FR_ESF_Cleaning+up+Fashion_Report_2021.pdf

²⁹ Zero Waste Scotland, 2022, Circular Textiles Fund, <https://www.zerowastescotland.org.uk/content/circular-textiles-fund>

ii) Fashion Industry

SCAP

The Sustainable Clothing Action Plan 2020 Commitment (SCAP) was a 10 year plan launched in 2012 to reduce the carbon, water and waste outputs of the UK clothing and textiles industry³⁰. It brought businesses from the clothing and textiles supply chain together to collaborate on developing the tools to help businesses to sign up to targets and reduce their impact. Whilst targets for carbon footprint and water footprint reductions were met and surpassed, the waste footprint aims were not met, and clothing in household waste was only reduced by 4%, of a 15% target³¹.

Textiles 2030

Building upon the work of the SCAP programme, WRAP launched the Textiles 2030 voluntary agreement to “fast-track the UK Circular Economy”, and has so far attracted 127 signatories. These signatories have signed up to:

- “Measure circularity of their product portfolio, including Scope 3 GHG emissions
- Set targets to reduce impacts and increase circularity
- Report progress to WRAP annually
- Take part in cross-industry discussions to share insights, identify priorities and develop solutions to key issues
- Influencing consumers to engage in more sustainable behaviour
- Contributing to evidence-based discussions on policy developments”.³²

Part of the Textiles 2030 Roadmap includes agreeing design principles for durability, recyclability, use of recycled content and minimising waste³³.

British Fashion Council - The Circular Fashion Ecosystem: A Blueprint for the Future

The British Fashion Council (BFC) launched its Circular Fashion Ecosystem report in 2021, outlining three target outcomes: “reduced volume of new physical clothing”, “maximised utilisation through product circularity”, and “optimised sorting methods and materials recovery”³⁴, as well as 10 priority action areas and 30 stakeholder recommendations.

The 10 priority areas were as follows: Circular Design, Consumer Empowerment, Circular and Sharing Business Models, Demand for Recycled and Renewable Fibres,

³⁰ WRAP, 2021, SCAP 2020 Final report, <https://wrap.org.uk/resources/report/scap2020-final-report>

³¹ WRAP, 2021, The Sustainable Clothing Action Plan 2020, Final report October 2021, https://wrap.org.uk/sites/default/files/2021-10/SCAP%202020%20Final%20report_0.pdf

³² WRAP, 2020, The signatory commitment: A compelling case for action, <https://wrap.org.uk/taking-action/textiles/initiatives/textiles-2030/the-signatory-commitment>

³³ WRAP, 2021, Textiles 2030 Roadmap, <https://wrap.org.uk/sites/default/files/2022-04/WRAP-textiles-2030-circularity-roadmap-20220331.pdf>

³⁴ British Fashion Council, Institute of Positive Fashion, 2021, The Circular Fashion Ecosystem: A Blueprint for the Future, https://instituteofpositivefashion.com/uploads/files/1/CFE/BFC_EXEC_SUMM.pdf

Enhanced Identification and tracking, Post-use Ecosystem, Sortation and Recycling, Ecosystem Modelling, Policy and Regulation, Innovation Investment.

Included as part of the Policy and Regulation action area, the report recommends “exploration of preferential incentives”, including tax breaks for companies that transition to Circular business models.

Ellen MacArthur Foundation - Vision of a Circular Economy

The Ellen MacArthur Foundation’s focus on the circular economy includes a focus on the fashion industry and how to move it towards circular models. It defines three categories for circular fashion business models as: more use per user, more users per product, and beyond physical products³⁵.

iii) Initiatives External to the UK

EU Strategy for Sustainable and Circular Textiles

In March 2022 the EU introduced its plans to further sustainability in fashion and textiles with the *Strategy for Sustainable and Circular Textiles*.

This included many initiative including Extended Producer Responsibility, eco-design for circularity, and a move towards consumer-facing transparency to ensure against false green claims³⁶. As part of this strategy, stakeholders were consulted, and in the EU’s documentation on its consultations, it was stated that stakeholders were supportive of “reduced VAT for second-hand clothes and repair services; taxes on virgin raw materials to spur resource efficiency and circularity; incentives to extended product lifetimes”³⁷.

iv) Skills and the Wider Green Economy

Across the board it is posited that a move to a green economy will create jobs. The ILO predicted 24,000,000 jobs could be created globally by 2030 if the right policies are implemented soon³⁸, and the UK government’s aim is to create 250,000 green jobs by 2030³⁹. However, there is much more to be done in order to reach this goal,

³⁵ Ellen MacArthur Foundation, Rethinking business models for a thriving fashion industry, <https://ellenmacarthurfoundation.org/fashion-business-models/overview>

³⁶ European Commission, 2022, EU Strategy for Sustainable and Circular Textiles, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022DC0141>

³⁷ Plan Miljo, 2022, Synopsis Report on the Consultation on the EU Strategy for Sustainable and Circular Textiles, <https://environment.ec.europa.eu/system/files/2022-03/Synopsis%20report%20textiles%20strategy.pdf>

³⁸ UN, Green Economy could create 24 million new jobs, <https://www.un.org/sustainabledevelopment/blog/2019/04/green-economy-could-create-24-million-new-jobs/>

³⁹ HM Government, 2020, The Ten Point Plan for a Green Industrial Revolution, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/936567/10_POINT_PLAN_BOOKLET.pdf

and sustainable fashion businesses could be part of that. As Fashion Roundtable's Cleaning Up Fashion report analysed, the stimulation of brands and businesses via tax incentives would simultaneously promote environmental sustainability and level up businesses, and therefore jobs, across the UK⁴⁰.

e) Brief analysis of the landscape

Despite slow progress or rejected recommendations, it is evident above that there are clear themes that are agreed upon when it comes to fashion circularity business models and incentives. Across the board there is a focus on there being a few key areas of business model: reducing production of new items, optimising life of garments, and optimising recycling, collection and reuse of materials no longer fit for original purpose.

And to reach these, it can be drawn out across the above initiatives and reports that business incentives are key to ensuring businesses transition to circular models including: VAT reduction for repair services, reworking of taxation to reward designing for longevity, reducing VAT for second-hand clothes and repairs, and tax on use of virgin materials. Out of these potential options VAT reduction appears the most common, and is an incentive rather than punishment model that would be a welcome approach from business, and could swiftly reward those already ahead of the curve.

With the European Commission's move to crack down on fast fashion via its *Strategy for Sustainable and Circular Textiles*, this should act as a prompt for the UK government to ensure that its policies align with regional and international standards.

2) The Opportunities for Circular Fashion

a) Definition of types and formats of sustainable fashion businesses.

In the movement towards a circular economy there are a number of business model formats currently being executed and developed within the fashion and textile industry. This report will, for the most part, follow the grouping of models into: Longevity and durability; Access-based; Collection and resale; and Recycling and reuse of materials⁴¹.

⁴⁰ APPG for Ethics and Sustainability in Fashion, 2021, Cleanngn Up Fashion Report, https://static1.squarespace.com/static/5a1431a1e5dd5b754be2e0e9/t/60ec3d173ba7d954d567ee0d/1626094876047/FR_ESF_Cleaning+up+Fashion_Report_2021.pdf

⁴¹ Luca Coscieme, Saskia Manshoven, Jeroen Gillabel, Francesca Grossi & Lars F. Mortensen, 2022, A framework of circular business models for fashion and textiles: the role of business-model technical, and social innovation, <https://doi.org/10.1080/15487733.2022.2083792>

i) Longevity and Durability

Focused on extending the lifespan of garments already in existence models in this grouping look to reduce the need for production of new items⁴².

Design for longevity is a key part of this, and for brands and businesses still producing new items, this approach allows for new items to be produced, but they must adhere to certain rules that will ensure an extended lifespan for the garment. This can include focus on physical durability: including material selection and construction techniques; emotional durability: design focus on increasing product relevance over trends; remake and recycling: design of products so they can be taken apart and each part including materials and components can be reused, remade, or recycled⁴³. The Textiles 2030 Roadmap, as mentioned in Section 1di, includes the development of principles and definitions around what designing for durability and minimising waste will look like⁴⁴. Initiatives like this can be useful in developing the structures and measures that businesses need to meet in order to receive incentives for sustainable practice.

Key business models offered under this heading are those of repair, maintenance, alteration, and tailoring services. This can include brands themselves offering repair services, but separate to this is are repair and care businesses, such as ACS which support the new clothing rental models (as discussed in point 2aii below) with rental logistics⁴⁵, as well as renewing and repairing items considered 'non-usable' for brands and businesses to save them from landfill and provide businesses with a new revenue stream⁴⁶.

ii) Access-based models

This grouping includes: leasing/rental services, one-off hire services, as well as peer to peer sharing models. The aim being to keep items already produced in circulation and use by those other than the original owner. These models create new jobs, requiring different skills, and offer a new economic lease of life for clothing.

Whilst the environmental impact of all aspects of clothing rental models still needs greater data and understanding, the Cleaning Up Fashion report highlighted how

⁴² Ibid

⁴³ Ellen MacArthur, Design products to be used more and for longer, <https://ellenmacarthurfoundation.org/articles/designing-products-to-be-used-more-and-for-longer>

⁴⁴ WRAP, 2021, Textiles 2030 Roadmap, <https://wrap.org.uk/sites/default/files/2022-04/WRAP-textiles-2030-circularity-roadmap-20220331.pdf>

⁴⁵ ACS, Rental, <https://www.acsclothing.co.uk/rental/>

⁴⁶ ACS, Renewal, <https://www.acsclothing.co.uk/renewal/#>

through rental, thousands of clothing items have their life extended and evidence sessions demonstrated interest in tax breaks for such models.

UK consumers are already taking up use of rental services, 37% of 'high intensity shoppers' (buy 2 or more items and shop at least once per month)⁴⁷ age surveyed rented clothing in 2021⁴⁸.

iii) Collection and resale

Collection and resale includes charity shops, thrift stores, online resale stores such as Depop and Vestiaire Collective, as well as including collection business models.

Resale models are proving more and more popular, as vintage and thrifted clothing allows consumers to create unique outfits, at a lower price point. Over 50% of those surveyed by IPF, again in the 'high intensity shopper'⁴⁹ bracket, bought second-hand clothing in 2021, a higher rate than the average population⁵⁰.

The Charity Retail Association claimed that in 2017, UK charity shops diverted 232,000 tonnes of textiles from landfill, "saving local authorities around £27m in Landfill Tax"⁵¹. In order for any kind of VAT reduction to be applied to recycling and reuse services, however, we need to ascertain how much of these textiles then end up in landfill outside of the UK - an outcome which does not do less damage to the environment, merely less damage within UK boundaries⁵².

iv) Recycling and reuse of materials

Key to the circular economy cycle, especially now as the movement towards circular begins, are the business models which take clothing and garments that can no longer serve their purpose as their original intention, and turn them into raw materials to be remanufactured into a new use.

⁴⁷ British Fashion Council, Institute of Positive Fashion, 2021, The Circular Fashion Ecosystem: A Blueprint for the Future, https://instituteofpositivefashion.com/uploads/files/1/CFE/BFC_EXEC_SUMM.pdf, pg.28, 29

⁴⁸ Ibid

⁴⁹ Ibid

⁵⁰ Ibid

⁵¹ Charity Retail Association, 2018, Councils, recycling centres and charity retail: part of the Charity Retail Association's big FOI project, <https://www.charityretail.org.uk/members/wp-content/uploads/sites/3/2018/04/recycling-centres-and-charity-retail.pdf>

⁵² ABC News, 2021, Dead White Man's Clothes, <https://www.abc.net.au/news/2021-08-12/fast-fashion-turning-parts-ghana-into-toxic-landfill/100358702>

Common examples currently occurring would be the use of clothing scraps as insulation or stuffing⁵³. However, with proper incentives and investment in technology, recycling can become more sophisticated, and the use of technology to entirely recycle fibres to nearly-virgin quality will be a turning point for reuse.

b) B Corp Case Study

i) What is required of businesses to meet B Corp standards?

Certification Requirements

B Corp certification is awarded on the basis of three “essential pillars”. Firstly, social and environmental performance, which requires organisations to fill out the B Impact Assessment and achieve a score of 80 or above (out of 200). Secondly, legally commit to being accountable to “all stakeholders, not just shareholders” by amending their corporate governance structure to reflect this. Thirdly, they must be publicly transparent and allow their Impact Assessment performance to be published on their B Corp website profile.⁵⁴

There have been evaluations to ascertain how robust this process is, and whether or not B Corp certification is vulnerable to greenwashing. A recent study concluded that the Impact Assessment and certification allowed companies to “choose between social and environmental impact, being allowed to completely ignore not just certain questions, but impact areas - such as the Environment - altogether” and therefore, by still being awarded a status that claims companies are “demonstrating the highest verified standards of social and environmental performance” could provide scope for B Corp certification to be greenwashing⁵⁵. This analysis feedback can be of great use in order to best create a mechanism that will provide only truly sustainable fashion business models to benefit from reduced VAT rates.

Costs Required for B Corp Status

When submitting for company certification as a B Corp all businesses, regardless of size are required to pay a £250 (plus VAT) submission fee⁵⁶. Certification fees are then required annually, prices of which are dependent upon annual sales and can be found in the table below.

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⁵⁴B Corp, Measuring a company's entire social and environmental impact, <https://www.bcorporation.net/en-us/certification#:~:text=In%20order%20to%20achieve%20certification,also%20meet%20baseline%20requirement%20standards>.

⁵⁵ Adriana Liute, Maria Rosa de Giacomo, 2021, The environmental performance of UK-based B Corp companies: An analysis based on the triple bottom line approach, <https://onlinelibrary.wiley.com/doi/epdf/10.1002/bse.2919>

⁵⁶ B Corp, Pricing, <https://bcorporation.uk/b-corp-certification/pricing/>

Figure 1: B Corp Annual Certification Fee as per Annual Sales

Annual Sales	Annual Certification Fee
£0 - £149,999	£1,000
£150,000 - £499,999	£1,250
£500,000 - £999,999	£1,500
£1,000,000 - £2,499,999	£2,000
£2,500,000 - £4,999,999	£2,500
£5,000,000 - £7,499,999	£3,000
£7,500,000 - £9,999,999	£4,000
£10,000,000 - £14,999,999	£6,000
£15,000,000 - £19,999,999	£8,500
£20,000,000 - £29,999,999	£12,000
£30,000,000 - £49,999,999	£16,000
£50,000,000 - £74,999,999	£20,000
£75,000,000 - £99,999,999	£25,000
£100,000,000 - £174,999,999	£30,000
£175,000,000 - £249,999,999	£35,000
£250,000,000 - £499,999,999	£40,000
£500,000,000 - £749,999,999	£45,000
£750,000,000 - £1,000,000,000	£50,000

ii) Quantitative distribution of B Corps across: size, business type, location.

There are now more than 5,000 B Corps worldwide, spanning 82 countries, 156 global industries, and covering over 422,400 workers⁵⁷. In the UK, there are over 700 B Corps across 56 industries⁵⁸.

⁵⁷ B Corp, The UK B Corp Movement, <https://bcorporation.uk/>

⁵⁸ Ibid

Figure 2: Geographical Distribution of B Corp Business⁵⁹

Country	Total Number of B Corps	Apparel B Corps	Jewellery B Corps	Textiles B Corps	Leather and related products	Other manufacturing*
Africa	40	1	1	2	1	0
Asia	161	12	3	5	1	2
Europe	1679	55	11	17	7	1
North America	1965	81	14	9	2	0
Oceania	422	16	0	0	0	0
South America	619	22	2	3	0	0

Figure 3: UK Headquartered B Corp Businesses and size by employee number⁶⁰

	Total number of businesses	0-9 Employee s	10-49 Employee s	50-249 Employee s	250-999 Employee s	1000+ Employee s
UK B Corps	790	424	231	95	31	9
Apparel	20	13	3	3	1	0
Jewellery	8	7	1	0	0	0
Textiles	3	2	1	0	0	0
Leather and Related Products	3	2	1	0	0	0

c)

3) Economic Case

⁵⁹ Data retrieved from: B Corp, 2022, Find a B Corp, <https://www.bcorporation.net/en-us/find-a-b-corp>

⁶⁰ Ibid

a) The Sustainability Gap

- i) Fast and sustainable fashion production cost gaps.
- ii) Fast and sustainable fashion pricing and profit gaps.

b) Barriers to Sustainability

i) Barriers fashion businesses face to move to sustainable practices.

Changing from current accepted fast-fashion models to sustainable or circular practices requires a vast turn around for many fashion businesses, and whilst there are a number of areas that require change in order to achieve sustainability e.g. changing purchasing practices, ensuring supplier suitability, reducing product offering, the final barrier behind each of these challenges is cost and profit.

A recent study to analyse the barriers defined six key areas, and ranked them from most significant to least important barriers in the order below⁶¹:

- 'management, government support, and infrastructure barriers'⁶² defined as a lack of commitment from management as the top barrier within this section, 'hard transition to new business models', a lack of support from governing authorities, noting that intervention is required to overcome barriers to sustainable models, and a lack of 'eco-literate' employees.
- 'material barriers'⁶³ speaks to an 'undersupply of sustainable raw materials'⁶⁴ but discusses this in conjunction with a disruption and delay to supply which is key to highlight as a maintained focus on speed;
- 'finance barriers'⁶⁵ which included a combination of a lack of certainty as to the return on investment, an increase in expenditure (due to paying sufficient wages and higher prices for more sustainable materials, certification and implementation) as the key issues;
- 'supplier barriers'⁶⁶ which highlighted poor management of supplier relationships and the lack of trust from suppliers to engage and collaborate on sustainable changes;

⁶¹ Nilesh Bhandari, Jose Arturo Garza-Reye, Luis Rocha-Lona, Anil Kumar, Farheen Naz, Rhoit Joshi, 2022, Barriers to sustainable sourcing in the apparel and fashion luxury industry, <https://reader.elsevier.com/reader/sd/pii/S2352550922000410?token=7313C510741CB5154653497B559F63F94FF860875277B364B667CD20FE216D5CFF27BAD24C95DFCE3EA0E3E05280953&originRegion=eu-west-1&originCreation=20220714140051>

⁶² Ibid

⁶³ Ibid

⁶⁴ Ibid

⁶⁵ Ibid

⁶⁶ Ibid

- 'certificates and customer perceptions barriers'⁶⁷ defining the issue as having to overcome implementing compliance with certification and upgrading standards, as well as a view that consumers might not purchase sustainable products due to a perceived low-quality in 'reprocessed' items and a perception of expense; finally the
- 'sustainable packaging and human resource barriers'⁶⁸ which was defined as a reluctance to invest in sustainable packaging due to the initial investment costs of time and resources, as well as a lack of willingness to upskill from employees.

As laid out in the Environmental Audit Committee's evaluation of fashion practices, two of the key changes required are a reduction in volumes and a change in purchasing practices. With many brands currently producing large volumes that they're able to buy at knocked down prices due to aggressive purchasing practices when dealing with suppliers, there are fundamental business model changes required to move away from these activities.

As defined in the most significant barrier ranking 'management, government support, and infrastructure' barrier, key to making these changes will be legislation and incentivisation. Brands currently acting sustainably are competing with businesses who are not constrained by the same social and environmental practice parameters they adhere to, and so a levelling of the playing field is required to encourage brands to change their practices. Change from the top was the top issue within that grouping, and it is likely legislation and incentives will change the minds of top management.

ii) Cost to CAPEX and other ongoing operating and service costs.

Sustainable fashion brands have a higher entry cost due to higher CAPEX as well as higher operating cost compared to fast fashion brands. Different ways that sustainable brands are undermined in the overall fashion market include:

- The traditional VAT system relies on manufacturers paying VAT on income earned at the time of sale. This includes sustainable business models such as rental fashion who have to make VAT payments on projected revenues.
- There is no difference in VAT between new and used products. This means that VAT in second-hand products is effectively paid twice by consumers.
- Second-hand brands are taxed the same rate as fast fashion although their revenues are lower, because the environmental and social costs of fast fashion are not a part of the calculation.
- Sustainable products tend to be more expensive due to higher capital and operating costs. For example, the choice of fabric and procurement of

⁶⁷ Ibid

⁶⁸ Ibid

materials, fair wages, lower amount of production, sustainable distribution and transport practices, and end of life process..⁶⁹⁷⁰

iii) Mandatory human rights due diligence - non-rewards based.

As discussed in Section 1bi, the splitting out of environmental and social definitions of sustainability when looking at the circular economy creates an environment in which businesses can choose which they care more about, and still appear ethical and 'green' if they only focus on environmental issues.

Therefore, it is important to explore the issue of human rights due diligence, as defined by the Guiding Principles on Business and Human Rights⁷¹. Whilst some have argued that B Corp certification does not go far enough in ensuring human rights due diligence is covered in order to receive certification⁷², it would be a different matter to provide a reward, via a VAT reduction, for adhering to universally accepted legislation on protecting human rights. The flip side of this narrative would be that a business merely pays more tax to be able to continue to not respect, or even abuse, human rights. This should be carefully considered when addressing what specific business model attributes will be given VAT reduction status.

c) VAT Intervention

- i) Cost to the UK government to provide VAT intervention for sustainable fashion businesses.
- ii) Case Study of similar intervention in another sector.

During Covid-19 crisis, the government introduced a VAT reduction from 20% to 12.5% on hospitality and tourism. Research estimates on the impact of this reduction include 182,400 jobs created over the next 5 years, additional turnover of £4.9 billion over 5 years, and £4.6 billion net present value of fiscal gains for HM Treasury over 10 years. The reduction has had equal impact all over the UK contributing to the levelling up agenda.⁷³ Moreover, an "eat out to help out" scheme was introduced in

⁶⁹ Vogue India, 2021, What goes into the pricing of sustainable fashion?

<https://www.vogue.in/fashion/content/why-is-sustainable-fashion-expensive-the-cost-of-ethically-produced-garments>

⁷⁰ Morgan Stanley, 2022, How ESG investors are making sustainable fashion on trend

<https://www.morganstanley.com/ideas/sustainable-investing-fashion#F2>

⁷¹ OHCHR, Mandatory human rights due diligence (mHRDD), <https://www.ohchr.org/en/special-procedures/wg-business/mandatory-human-rights-due-diligence-mhrdd>

⁷² Open Democracy, 2020, The B-Lab is wrong about human rights - but there's a fix,

<https://www.opendemocracy.net/en/beyond-trafficking-and-slavery/the-b-lab-is-wrong-about-human-rights-but-theres-a-fix/>

⁷³ THE FULL FISCAL AND EMPLOYMENT IMPACT OF REDUCED VAT ON UK HOSPITALITY AND TOURISM, 2022.

August 2020, which increased demand for eating in restaurants by 216% compared to 2019. There was an increase in the output of the food and beverage services by 120%, and a decrease in half a million of furloughed jobs.⁷⁴

iii) Analysis of potential cost saving for the consumer.

iv) Economic evaluation of increase in demand for sustainable fashion over fast with VAT intervention.

More data on consumer expenditure on sustainable fashion is needed to analyse the potential cost saving for the consumer as well as changes in demand for sustainable fashion over fast fashion. Including sustainable fashion as an item on ONS household consumer expenditure survey would allow us to gauge the relative consumption of sustainable fashion over fast fashion and conduct appropriate analysis of potential VAT changes. Alternatively, a comprehensive market research is needed to measure the size of the sustainable fashion market in the UK.

Other incentives

Previous calls on the government to regulate the fashion industry with the aim of reducing the environmental impact were rejected in 2019. These included: one penny charge per garment on producers that could be invested in better recycling infrastructure, landfill bans, environmental targets and carbon gas emission reduction by the fashion industry, reward for sustainable fashion practices, tax incentives on reuse and repair, and labour rights regulations.⁷⁵

Sweden has introduced a VAT reduction from 25% to 12% on the repair of goods, including clothes, to stimulate the repair industry and reduce the amount of waste.⁷⁶

In July 2021, the EU imposed a border VAT applicable to all goods imported to the EU. Implications could include a reduction in consumption of fast fashion products that are produced abroad where environmental and labour regulations are more lax.

https://cdn.ymaws.com/www.ukhospitality.org.uk/resource/resmgr/reports/vat/2022/SUMMARY_REPORT_-_The_Impact_.pdf

⁷⁴ House of Commons Library, 2020, Eat out to help out scheme

<https://researchbriefings.files.parliament.uk/documents/CBP-8978/CBP-8978.pdf>

⁷⁵ Committees, UK Parliament, 2019, Government rejects recommendations to force fashion industry pay to clean up its act, <https://committees.parliament.uk/committee/62/environmental-audit-committee/news/100390/government-rejects-recommendations-to-force-fashion-industry-pay-to-clean-up-its-act/>

⁷⁶ Skatteverket, VAT rates on goods and services,

<https://skatteverket.se/servicelankar/otherlanguages/inenglish/businessesandemployers/startingandrunningaswedishbusiness/declaringtaxesbusinesses/vat/vatratesongoodsandservices.4.676f4884175c97df419255d.html#:~:text=and%20household%20linen-1,12%25,goods%2C%20clothing%20and%20household%20linen.>

New York State regulation requires businesses with more than 10% of its waste composed of textiles to send residuals for recycling.⁷⁷

France prohibits fashion sellers and retailers from throwing away unsold clothing in conventional landfills.⁷⁸

The Netherlands supports businesses and other entities to conduct partnerships and purchasing arrangements inspired by circular principles, through the Green Deal Circular Procurement, worth €100m.⁷⁹

In 2007, France introduced a legal framework that makes textile producers responsible for the collection and recycling of end-of-use (EoU) clothing, linen, and shoes, which has resulted in a triple increase in recycling rates of textiles.⁸⁰

All EU member states will be required to have a separate collection for textiles by 2025.⁸¹

4) Recommended Next Steps

VAT incentives for positive social and environmental contributions

The scope for incentivising businesses to onshore their production and manufacturing in the UK, while simultaneously combining this opportunity with the government's ambitions to drive innovation and the UK towards net zero, and more environmentally visionary objectives, is extremely compelling. It would provide the UK with a tangible opportunity to show real global leadership post COP26. The UK excels at green tech innovation and sustainability. Adding incentives to support this will boost opportunities for inward investment, growth and support the levelling up agenda across the country.

The UK's film industry is booming, with more domicile film and TV productions enjoying greater market share success than ever. This is largely thanks to the government's decision to offer tax incentives for productions making all, or a part of their film

⁷⁷ NYC Gov, 2022, Recycling: Special Cases
<https://www1.nyc.gov/assets/dsny/site/services/recycling/special-cases>

⁷⁸ The Guardian, 2020, France passes landmark law to stop unsold goods to being thrown away
<https://www.theguardian.com/world/2020/jan/30/france-passes-landmark-law-to-stop-unsold-goods-being-thrown-away>

⁷⁹ Innovation for Sustainable Development Network, 2019, Green Deal for Circular Procurement in the Netherlands
<https://www.inno4sd.net/green-deal-for-circular-procurement-in-the-netherlands-434>

⁸⁰ Circle Lab, 2021, EPR Policy: France's National Programme for Textiles Recovery
<https://knowledge-hub.circle-lab.com/article/8959?n=EPR-Policy-France%27s-National-Programme-for-Textiles-Recovery>

⁸¹ European Commission, 2018, New waste rules will make EU global front-runner in waste management and recycling, https://ec.europa.eu/info/news/new-waste-rules-will-make-eu-global-front-runner-waste-management-and-recycling-2018-apr-18_en

production here. In 2019, the tax relief-supported screen sectors resulted in £13.48bn in GVA) for the UK economy and generated 156,030 full-time equivalent (FTE) jobs.⁸² Primarily because of this, we have seen on-going inward investment, with key global players choosing the UK to headquarter their operations and build new studios, employing a wealth of workers. Incentives clearly work and given the scope for the UK to lead on the global drive toward sustainability and green innovation, we hope that the government will look closely at these opportunities and appreciate this is a tangible and lucrative opportunity.

⁸² BFI, 2022, UK screen sector economy, <https://www.bfi.org.uk/industry-data-insights/reports/uk-screen-sector-economy>

Devolved Nations Data

Scotland:

- The textiles sector is the seventh most important contributor to the Scottish economy, with an annual turnover of £956 million. Exports of its products are valued at £375 million. There are over 570 companies directly employing about 9,000 people across Scotland, with 55% of these companies having fewer than 10 employees.
- Global economic trends have influenced, positively, the export of luxury goods for the Scottish textiles sector. In October 2013, it reported growth levels 12 per cent above the 2020 target. It has revised its targets to achieve between £1.2 and £1.5 billion in turnover growth by 2020.
- ZWS has also supported 19 small and medium-sized enterprises with tailored consultancy support through the Circular Economy Business Support Service in order to help develop circular textiles propositions. These organisations span fashion, sportswear, furniture and homeware sectors. Each support service provided to these organisations had a value of approximately £15,000.
- In addition, ZWS supported the creation of circular economy textiles initiatives including the UK's Sustainable Clothing Action Plan and Love Your Clothes campaign (through WRAP).
- In a broader context, this work is part of ZWS' support of the Scottish Government's Zero Waste Plan (Scottish Government, 2010) which has set ambitious targets to achieve 70% recycling and a maximum 5% to landfill by 2025 for all Scotland's waste

Wales:

- Corgi takes its environmental responsibilities seriously, sourcing its natural cotton, wool and cashmere yarns from reputable, high-quality suppliers. Energy used at the factory is from 100% renewable sources, and no waste is sent to landfill. Yarn offcuts are collected by a charity for use by local schools in their craft projects.
- JoJo has been ahead of the curve in eliminating single-use plastic from packaging, and runs a scheme called FAMTA to pass on pre-owned clothing to vulnerable families. It launched a recycled fleece collection as long ago as 2000, followed by rain jackets and bibs made from reclaimed polyester.

Northern Ireland:

- The campaign, run by Environmental Charity Keep Northern Ireland Beautiful and funded by Department of Agriculture, Environment and Rural Affairs (DAERA); aims to tackle public behaviour and awareness

around textile waste and encourage consumers to never put clothing in the bin.

- Northern Ireland's environment minister, Edwin Poots, has called on the public to respond to the consultation on the country's environment strategy. This includes several targets pertaining to waste.
- Circular economy strategy: The draft Industrial Strategy set out a commitment for the Department for the Economy to work with the Department for Agriculture, Environment and Rural Affairs (DAERA) in developing a Circular Economy Strategic Framework (CESF) for Northern Ireland (NI).