

# The fast fashion paradox

## Searching for sustainable solutions

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ESG - Global

- ◆ Pressure for fashion to be sustainable grows, yet fast fashion continues to dominate an already impactful industry
- ◆ The drivers of this trend have a direct effect on key ESG metrics such as emissions, waste and working conditions
- ◆ We identify key sustainable trends, their challenges and provide investor questions to aid understanding

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Fast fashion continues to grow despite significant industry risks: Since the early 2000s, the fast fashion paradox has persisted, with retailers marketing clothing as disposable and suppliers continuously cutting costs. The industry is responsible for roughly 8-10% of global carbon emissions, therefore, we address here the fundamental issues it faces to achieve sustainable targets and improve the lives of those negatively impacted.

What's been driving this growth? Many contributing factors have succeeded in increasing the adoption of the fast fashion model by retailers and purchases of fast garments by consumers. These are summarised in the table below, against six key ESG risks associated both directly and indirectly with the drivers retailers and investors should be aware of and cautious about.

Time for sustainable solutions: We observe growing support for addressing the negative impact of fast fashion. This is catalysed by consumer attitudes, regulations and industry developments. Identifying key trends and solutions for a circular model of fashion, we discuss sustainable materials, technology and supply chains, as well as looking at enablers such as collaboration and waste solutions.

In the full note, we also identify challenges and investor questions: Acknowledging there are significant barriers to overcome, we match potential solutions to the challenges we have identified. Investors have a role to play in driving sustainability in the industry. The full note provides ten questions to assist in evaluating practices through engagement.

### ESG risks associated directly and indirectly with the drivers of fast fashion

| Fast fashion driver | Waste | Biodiversity | Emissions | Water, pollution & micro plastics | Social | Governance & greenwashing |
|---------------------|-------|--------------|-----------|-----------------------------------|--------|---------------------------|
| Inconsistent sizing | ●     | ○            | ●         | ○                                 | ●      |                           |
| Representation      |       |              |           |                                   | ●      |                           |
| Manufacturing       | ●     | ●            | ●         | ●                                 | ●      | ●                         |
| Influencer culture  | ●     | ○            | ●         | ○                                 | ●      | ●                         |
| Accessibility       | ●     | ○            | ●         | ○                                 |        |                           |
| Poor quality        | ●     | ●            | ●         | ●                                 | ●      | ●                         |

Source: HSBC. Note: ● = direct impact, ○ = indirect impact.

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- ◆ For decades, the fast fashion trend has been the driving force for retailers, and one many have based their business model on
- ◆ The pandemic brought the industry and its ESG risks into focus
- ◆ What is driving this growth and what are the ESG risks?

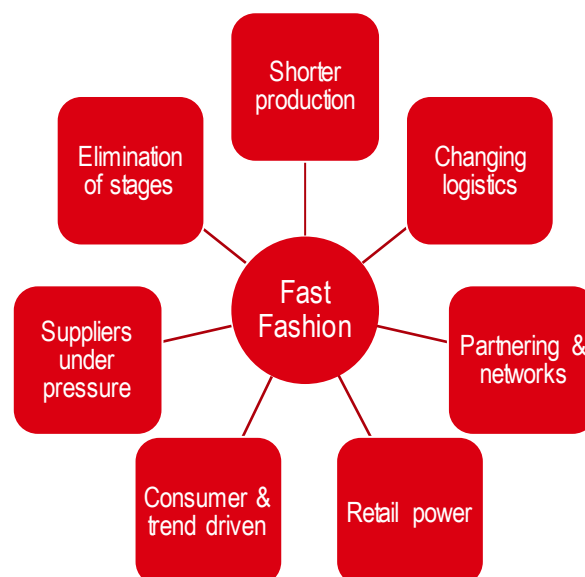
## A disposable clothing trend

Fast fashion involves making and selling clothing cheaply, so that consumers are able to follow trends and buy new clothes often. Fashion seasons rose from as little as two in the early 2000s, to over 50, with design-to-retail cycles becoming days rather than months. The industry has seen 2x growth in production since then, while at the same time experiencing a 40% drop in the number of times an item of clothing is worn<sup>1</sup>. Clothing is increasingly seen as disposable despite the significant environmental and social issues arising from the trend.

### What's the fast fashion paradox?

In a society increasingly focused on sustainability, the trend of fast fashion appears paradoxical. With the aim of quick production, low prices and trend-driven garments, the industry has grown substantially in size. Appealing to those looking for high-end designs with an affordable price tag, this convenience comes at significant social and environmental costs. However, the trend continues to grow and the sustainability of the industry is increasingly a concern to many.

Chart 1: Characteristics of fast fashion



Source: HSBC, R.Čiamienė & M.Vienožindienė (2014)

<sup>1</sup> Ellen MacArthur Foundation, 2021

### Fashion accounts for 8-10% of global carbon emissions

Retailers in this space are continuously aiming to reduce costs, whether this be via material inputs or labour to compete with rival brands and provide the cheapest and latest fashion items on the market. However, this comes at a high price. Suppliers often cut corners on safety and labour rights, while waste and landfill build as retailers promote the disposable and replaceable nature of their clothing. With the fashion industry contributing 8-10% of global carbon emissions, we address the fundamental issues it faces to achieve sustainable targets and improve the lives of those negatively impacted.

The COVID-19 pandemic exposed poor fashion practices. Below we outline key trends in retail over this period and why this industry must address its ESG risks. After two years of disruption, the fashion industry is beginning to find its feet again. The COVID-19 pandemic has accelerated trends across the retail sector. The focus has shifted to areas such as technology integration and the building of an online presence. We believe these are here to stay and can develop further. The pent-up demand and the fast/ultra-fast fashion trends have put the perils of the fashion industry back in the spotlight. Consumer attitudes are increasingly focused on sustainable products and ESG concerns such as supply chain transparency. Therefore, addressing the fast fashion paradox is very important not only for retailers themselves, but investors and stakeholders too.

### Linking drivers to ESG risks

In this Free to View, report we build upon the ESG team's previous report on *Fast fashion* (September 2019), and discuss the main drivers and their corresponding ESG risks, outlined in Table 1, with each addressed in detail. In the full note, we identify key trends going forward as well as the challenges. We provide investors with key questions to help understand the role of stakeholders in the fast fashion industry and their ESG credentials.

**Table 1: ESG risks associated directly and indirectly with the drivers of fast fashion**

| Fast fashion driver | Waste | Biodiversity | Emissions | Water, pollution & micro plastics | Social | Governance & greenwashing |
|---------------------|-------|--------------|-----------|-----------------------------------|--------|---------------------------|
| Inconsistent sizing | ●     | ○            | ●         | ○                                 | ●      |                           |
| Representation      |       |              |           |                                   | ●      |                           |
| Manufacturing       | ●     | ●            | ●         | ●                                 | ●      | ●                         |
| Influencer culture  | ●     | ○            | ●         | ○                                 | ●      | ●                         |
| Accessibility       | ●     | ○            | ●         | ○                                 |        |                           |
| Poor quality        | ●     | ●            | ●         | ●                                 | ●      | ●                         |

Source: HSBC, Note: ● = direct impact, ○ = indirect impact.

## What's been driving the growth?

### Inconsistent sizing

When there are discrepancies between sizes in the same garment from the same retailer, the concerns with returning products, such as waste and emissions, are exacerbated. Fast fashion brands have been under scrutiny for their sizing inconsistencies, which not only artificially increases demand and impacts inventory management, but also results in a greater volume of returns.

A significant concern with fast fashion is where the returned items end up. Reverse logistics company Optoro estimates that in 2021, 9.6bn pounds of waste entered landfill from returned inventory in the US alone, with 27m metric tons of CO<sub>2</sub> emitted in returns transportation<sup>2</sup>. The company also noted that online returns are 3x the volume of in-store purchases and produce 14% more landfill waste<sup>3</sup>. Considering the majority of fast fashion retailers are online, the return risk is heightened. In comparison, sustainable fashion firms are focused on waste reduction, which makes situations such as this less likely.

### Representation

Fast fashion brands are known to operate with a considerably lower cost of production than the rest of the fashion industry, which provides the opportunity to supply a greater range of sizing and shape options. They are able to deliver specialised ranges for particular figures such as tall, petite, plus and maternity. This is a key factor in the growth of fast fashion, one in which sustainable brands have some catching up to do.

### Lost sales and increased emissions

### Online returns 3x the volume of in-store

<sup>2</sup> Impact Report 2021, Optoro, 2022

<sup>3</sup> Impact Report 2020, Optoro, 2021

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**Globalisation and manufacturing enhancing the trend**
**Manufacturing**

The ability to increase the speed of production has paved the way for the fast fashion revolution. The production cycle has been reduced considerably, with vertically integrated supply chain allowing for bi-weekly deliveries of new products. This enables fast fashion retailers to keep up to date with new designs and products.

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**Social media and influencers driving sales**
**Influencer culture**

Influencers are defined as individuals with the power to affect purchasing decisions of others due to factors such as knowledge, position, audience or niche. The challenge isn't only the environmental impact of these large clothing hauls and free product gifting (for which clothes are often worn only once), but also their younger target audience and the need for inclusivity. Influencers often seek to represent as much of their following as possible, which favours fast fashion brands that often include a greater range of sizes and lines. Additionally, influencers aim to promote affordable styles, with which many sustainable brands are not able to compete.

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**Accessibility – social benefit, but environmental problem?**
**Accessibility**

Features such as checkout options on social media platforms have made the customer journey smoother, allowing an easier, quicker and instantaneous shopping experience while browsing content. According to Accenture, the global social commerce industry is expected to see three-fold growth compared to traditional e-commerce, reaching a market size of USD1.2tn by 2025<sup>4</sup>.

Pricing remains the key driver for mass-market customer spending decisions. Several retailers now offer free shipping, free returns and discount coupons, all of which promote more buying – and more returns.

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**Lower quality, greater purchases**
**Poor quality**

Fast fashion often has the identifying characteristic of poorer quality, in terms of low quality fabric, fastenings, stitching and control. Additionally, items are specifically designed to be out of style by the next season, encouraging the disposable aspect and prompting consumers to buy more.

Not only do low quality garments increase waste and garment turnover for the consumer, but can actually be dangerous to human health. The chemicals and synthetic products used to produce garments can cause irritation to the skin and in some cases respiratory and nervous system risks. Additionally, there is the initial impact on workers handling such garments to consider. To keep up with demand, pesticides are used for fibres such as cotton, exposing factory workers to chemicals and the polluting the environment.

Another aspect of quality impacting the fast fashion industry is the return rate. It's estimated that 60% of consumers will return an item of clothing if it is defective<sup>5</sup>. As fast fashion brands aim to produce and distribute clothing quickly, quality control can be overlooked. This leads to a greater number of returns, therefore the control aspect is essential to help reduce this.

**ESG risks**


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**Describing fast fashion's impacts**

In this section, we highlight key ESG risks present in a fast fashion world. Although attention has been mainly on its environmental impacts, social and governance factors across the industry are increasingly coming into focus.

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**Decomposition not in our lifetime**
**Waste**

It is estimated that every year fast fashion produces over 92m tonnes of waste<sup>6</sup>, with around 80% of our discarded textiles being sent to landfill<sup>7</sup>. The majority of these garments are made out of synthetic materials, meaning decomposition is limited and can take over 200 years to fully decompose<sup>8</sup>. Of the 12% of clothing collected for recycling, less than 1% is recycled into new garments<sup>9</sup>, exacerbating the waste problem the industry faces.

<sup>4</sup> 'Shopping on Social Media Platforms Expected to Reach \$1.2 Trillion Globally by 2025, New Accenture Study Finds', Accenture, 04 January 2022

<sup>5</sup> 'What Country Has the Highest Online Shopping Return Rate?', Payments Journal, 13 February 2019

<sup>6</sup> 'The Ultimate Guide to Fast Fashion in 2022', Commonwealth Human Ecology Council

<sup>7</sup> 'Are Our Clothes Doomed for the Landfill?', Remake, 22 March 2018

<sup>8</sup> 'Are Our Clothes Doomed for the Landfill?', Remake, 22 March 2018

<sup>9</sup> 'Fashion has a huge waste problem. Here's how it can change', World Economic Forum, 28 February 2019

Often clothing is wasted before it even reaches the consumer, as around 30% of clothing is never sold and considered excess inventory<sup>10</sup>. Worryingly, some high-end brands have admitted to destroying or burning unsold items to protect their brand image, with complete disregard for the environmental damage the production and destroying process causes<sup>11</sup>.

### **Biodiversity**

Nature has provided us with materials to produce garments we wear; from cotton and linen to leather and silk, plants and animals are the basis for the fashion industry. The industry is reliant on biodiversity, however, it is partly responsible for its loss. Examples of the damage caused by the industry include: land and soil degradation, deforestation and pollution of air and water.

### **Emissions**

The fashion industry accounts for 8-10% of global carbon emissions<sup>12</sup>, more energy than the aviation and shipping industries combined. The sector is highly energy-intensive, relying on fossil fuels for energy in fibre production, manufacturing and transport. Estimates suggest sector emissions could rise by 60% by 2030<sup>13</sup> and fast fashion is a significant driver of this figure.

Fibre production contributes 15% of carbon emissions and synthetic fibres not only drive fast fashion practices but enhance dependence on fossil fuels. Synthetic fibre production currently accounts for about 1.4% of global oil consumption, which is comparable to the annual oil consumption of Spain. If the fast fashion trend continues on its current course, by 2030, nearly three-quarters of total fibre production will be synthetic and therefore reliant on fossil fuels<sup>14</sup>.

### **Water, pollution and micro plastics**

Manufacturing textiles is an energy, water and chemical-intensive process. It is estimated the fabric dyeing process alone consumes around 5 trillion litres of water each year<sup>15</sup>. Categorised as the second largest polluter of water globally, the sector generates about 20% of global industrial water pollution via dyeing and finishing products<sup>16</sup>. About 3,500 chemicals are used, of which 750 and 440 have been classified as hazardous for human health and the environment, respectively<sup>17</sup>.

Apart from the high water and energy consumption in the textile laundering process, washing clothes releases chemicals and micro plastics into the waste water. It is estimated the washing of plastic-based textiles results in a discharge of about 500,000 tonnes of microfibrils into the ocean<sup>18</sup> every year and accounts for 35% of primary micro plastics released into the environment<sup>19</sup>.

### **Social conditions**

In addition to the detrimental effects on the environment and climate, the highly competitive fast fashion business model relies on cheap labour and exploitative modes of operation. These include poor safety and working conditions and labour practices. The Bureau of International Labor Affairs has reported evidences of forced and child labour in the textile industry across several geographies including Argentina, Brazil, India and Mexico<sup>20</sup>. In certain countries it is reported that 87% of the workforce, mainly women, has wages lower than the minimum wage, which is significantly below living wages<sup>21</sup>.

Workers in the textile industry face several health issues related to exposure to cotton dust, chemicals and noise with 10% of textile-related substances reported to have potential ill effects on health<sup>22</sup>.

**Damage from raw material to waste**

**Reliant on fossil fuels**

**Responsible for 20% of global industrial water pollution**

**Working conditions and pay still high on the sustainability agenda**

<sup>10</sup> Australian Circular Textile Association

<sup>11</sup> 'Burberry burns bags, clothes and perfume worth millions', BBC, 19 July 2018

<sup>12</sup> 'Can fashion ever be sustainable?', BBC, 11 March 2020

<sup>13</sup> 'Fashion Industry, UN Pursue Climate Action for Sustainable Development', UNFCCC, 22 January 2018

<sup>14</sup> 'Fossil Fashion: The hidden reliance of fast fashion on fossil fuels', Changing Markets Foundation, February 2021

<sup>15</sup> 'The Apparel Industry's Environmental Impact in 6 Graphics', World Resources Institute, 05 July 2017

<sup>16</sup> 'The Apparel Industry's Environmental Impact in 6 Graphics', World Resources Institute, 05 July 2017

<sup>17</sup> 'Textiles in Europe's circular economy', European Environment Agency, 19 November 2019

<sup>18</sup> 'Textiles in Europe's circular economy', European Environment Agency, 19 November 2019

<sup>19</sup> 'Microplastics: sources, effects and solutions', European Parliament, 22 November 2018

<sup>20</sup> 'List of Goods Produced by Child Labor or Forced Labor', Bureau of International Labor Affairs, as of 23 June 2021

<sup>21</sup> 'Briefing note on sustainable textile value chains in the garment and footwear domain for SDG12', United Nations, 19 March 2019

<sup>22</sup> 'Briefing note on sustainable textile value chains in the garment and footwear domain for SDG12', United Nations, 19 March 2019

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**Transparency and reporting****Governance and greenwashing**

Risks associated with the governance of fast fashion firms are transparency and ESG reporting. Without a full picture of their supply chain, from raw material to consumer, the company's ability to measure ESG risks such as emissions or worker's rights is diminished. Investors and consumers are increasingly identifying transparency and traceability of supply chains as a key ESG consideration. However, fast fashion firms often have opaque supply chains, with media on such issues becoming increasingly common.

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**Copyright infringement**

An additional barrier to success are legal issues concerning copyrights. Accusations of copyright theft are common within the fast fashion industry which cause considerably harm retailers at both a financial and reputational level, potentially damaging future growth.

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**Greenwashing risks**

Greenwashing involves making claims that appear to make a brand more environmentally conscious than it really is. Within the fast fashion industry, a primary focus is to keep costs low, often by exploiting the environment or people. This means sustainability is often low on their agenda. With consumers increasingly focused on their environmental footprint, fashion brands have attempted to appear more sustainable to attract customers, marketing a small segment of their brand that may (or may not) actually be more sustainable.

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**Targets, accountability and circularity required**

**In our view, rooting out the environmental and social challenges in the sector will require businesses to measure and improve their sustainability performance across the entire supply chain. This would entail setting targets for improvements, supplier engagement and accountability, and adopting business practices that allow a transition from a linear to a circular model of operation.**

# Fashion of the future

- ◆ We observe growing support for sustainable fashion developments
- ◆ Materials, technology, supply chains and circular models all have a significant role to play in improving sustainability across the industry
- ◆ Investors are encouraged to engage with stakeholders to drive this change

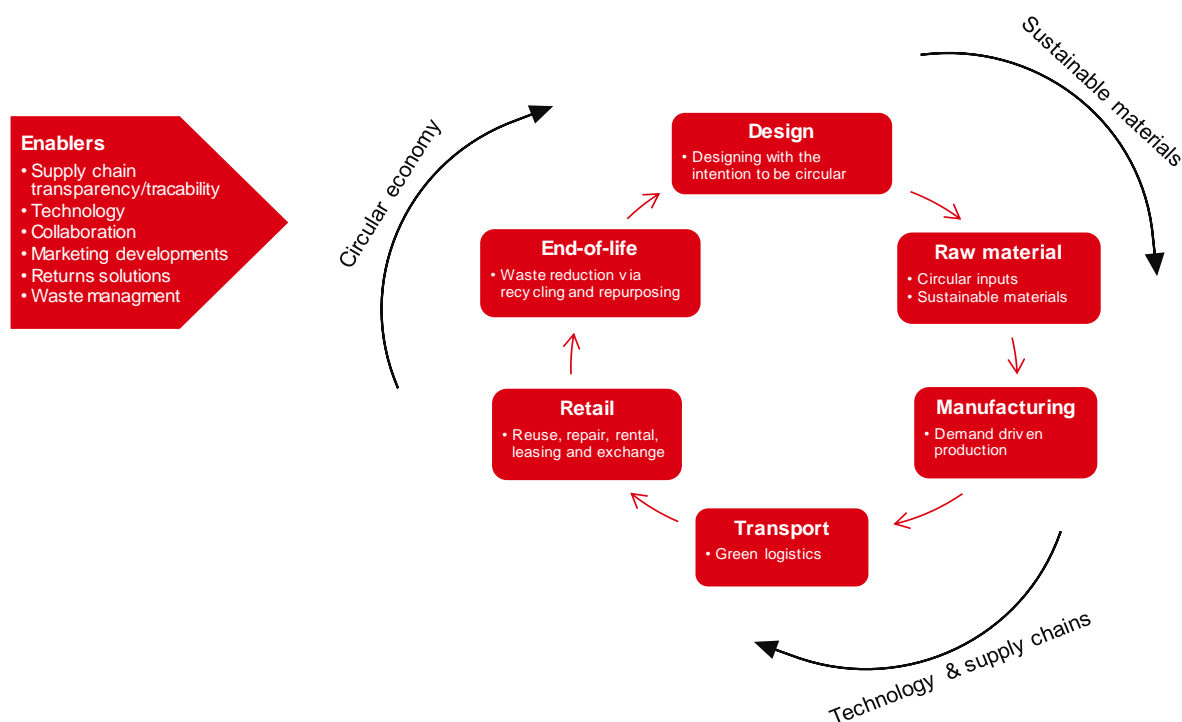
## A call for change

We have previously discussed the key catalysts driving the industry to greater transparency across its supply chain. These drivers are similar to the ones that catalyse sustainable fashion, and facilitate the move away from fast fashion. We outline them below:

- ◆ **Consumer attitudes** – There is clear and growing evidence that some developed market retail consumers are motivated by sustainability issues to the extent that it can affect their purchasing decisions. Some consumers are showing a desire to better understand where their clothing has come from, while others are demanding better social and environmental credentials. In our recent proprietary UK consumer survey, 41% of respondents said they would go out of their way to purchase from responsible companies. There is evidence that consumer demand for sustainability credentials is translating into industry-wide changes, for example, via supplier lists, QR codes and website filtering and labelling.
- ◆ **Industry development, competition and ambition** – The garment and apparel industry is undergoing change to become more sustainable. Although progress is slow, we notice considerable upgrades to ambition via climate pledges, net zero targets and supply chain transparency. An example is the Transparency Pledge, which is a voluntary, industry-wide pledge for apparel and footwear companies to commit to improving the transparency in their manufacturing supply chain. A few years ago no major apparel company had disclosed its supplier list and location. Now, 76 global garment companies have aligned to the pledge, or are close to commitment and alignment.
- ◆ **Regulation** – In certain regions and countries, regulations regarding the use of chemicals/dyes, labelling, testing and labour practices are impacting the way the industry operates. An example is the EU's REACH<sup>23</sup> regulation, which controls dangerous chemicals in consumer products, including textiles. Since November 2020, 33 carcinogenic, mutagenic or toxic for reproduction substances (CMRs) were restricted in textiles<sup>24</sup>. This control on chemicals, although primarily to protect consumers, has the ability to encourage suppliers to be more conscious of their production/product and its impact.

<sup>23</sup> REACH = Registration, Evaluation, Authorisation and Restriction of Chemicals

<sup>24</sup> 'REACH Restrictions', European Commission

**Chart 2: Fashion of the future circular model**


Source: HSBC, SDA Bocconi Monitor for Circular Fashion Survey 2021

*This is a Free to View version of a report with the same title published on 14-Sep-22.*

*The full note contains case studies exploring the repercussion of the COVID-19 pandemic, the environmental consequences of cotton production along with a more in-depth look at what we believe the industry needs to do to transition into a greener future, discussing the changes from within as well as those that investors and consumers need to push for.*

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