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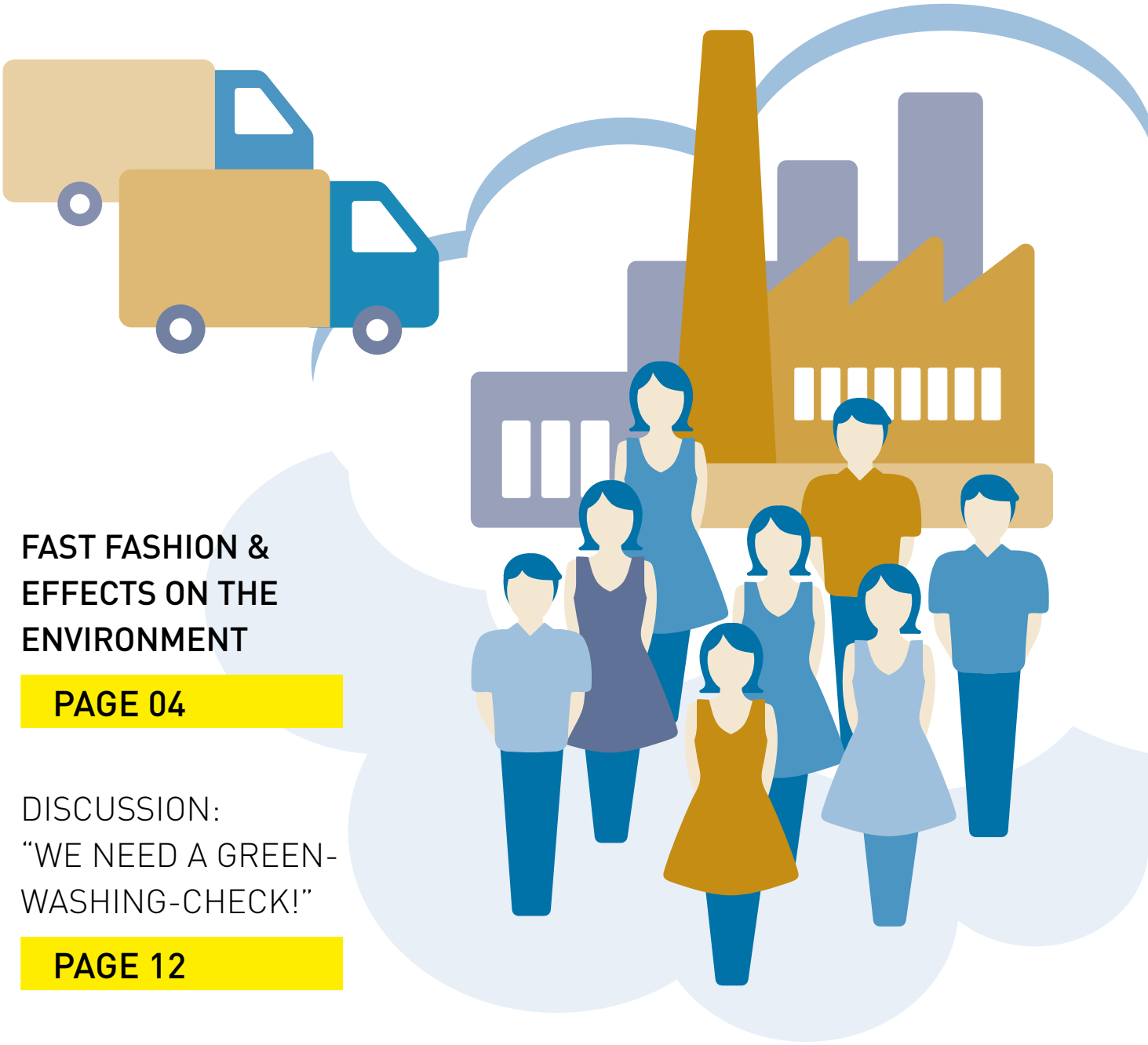
Raiffeisen Capital Management
Member of RBI Group

SUSTAINABLE INVESTMENT



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EDITORIAL

Dieter Aigner
Managing Director of Raiffeisen KAG,
responsible for fund management
and sustainabilty

Dear Readers,

the core business of the major textile firms is selling as much clothing as possible and as quickly as possible to as many people as possible. This "fast fashion" business model has disastrous consequences for people, animals, and the environment. Because the articles of clothing are often manufactured under horrendous working conditions and using a large quantity of chemicals. The microplastic that is rinsed out of the polyester fibres that our dresses, shirts, and fleece pullovers are most frequently made of during washing ends up in our water and on our fields. Mountains of discarded clothing fill illegal dumps, especially in poorer countries.

Consumers are often entirely unaware of the destructive systems they support with their purchasing decisions when they buy cheaply produced goods. On the contrary, the greenwashing being conducted by some of the major retail chains even causes them to believe that they are supporting the right initiatives. This is why it is so important to provide objective information on the one hand and to exert pressure on the textile companies to change their practices on the other. As the financial avenue is often the most promising approach here, it is our duty as investors to step up. We can redirect capital flows and invest in companies that pay fair wages and comply with environmental standards. We also have the ability and obligation to ask questions during shareholder engagement activities and at annual general meetings and to criticise activities that point to possible greenwashing or misconduct in the supply chains.

But it is also clear that responsible investors alone will certainly not be able to solve the manifold problems that fast fashion causes and that equally relate to all ESG criteria. The will and collaboration of all stakeholders is necessary if we are to create sustainable structures here. Above all, our elected officials must enact the necessary laws. And science must push ahead with research into alternative fibres and better recycling options. The media must create awareness. And we need consumers who do not look simply at the price, but also at the sustainability of clothing. And we of course need retailers and manufacturers that do not want to perpetuate this system.

We are most definitely miles away from such a constellation. Over 90 per cent of our clothing is currently produced in low-wage countries like Bangladesh, India, and China. Labour and environmental protection standards are largely ignored. Poisonous chemicals make their way into rivers and pollute the drinking water of millions of people and animals. That is the price that we actually pay for a T-shirt that is produced on the other side of the world and that we dig out of the bargain bin and take home for EUR 3.50 for a two-pack.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

FAST FASHION IN THE TEXTILE INDUSTRY

You can find out more about Sustainable Development Goal 12 on pages 18–19 and at www.investment-zukunft.at/kategorie/sustainable-development-goals/

A World Bank estimate puts the value of the global textile industry at USD 2.4 trillion. Including the entire value chain of the garment industry, this sector employs around 300 million people. The sector is growing at a rate of around 4% per year according to the most recent statistics, and the production volume of the garment industry has doubled over the last 15 years. The key drivers of this growth aside from the expanding world population are especially the large, up-and-coming economies like China and India, where the members of the burgeoning middle classes are gaining weight as consumers.

The textile industry is a problematic sector from a number of perspectives. In terms of environmental impact, high water consumption, the extensive use of chemicals, and above-average energy and waste intensity are the norm. Social concerns include poor working conditions and low standards for health and safety. Forced labour and child labour still abound in the sector.

PRODUCTION AND USE

According to a study by the Ellen MacArthur Foundation, global textile production has doubled in the last 15 years while the time that the products are used has decreased by half. In other words, the average consumer purchases 60% more garments, but only wears them for half as long as a decade and a half ago. In China, which is representative of the new consumption patterns in the Emerging Markets, the time that a garment is used has even fallen by 70% over the past 15 years.

The number of clothing collections rose by 100% between 2000 and 2011. For many consumers, fast fashion is leading to "disposable fashion". This means that around 50% of all fast fashion garments are thrown away after no more than one year to make space for new articles. The Ellen MacArthur Foundation estimated in 2017 that consumers around the world forgo USD 460 billion in total every year by discarding clothing that can still be worn. »

Wolfgang Pinner
Head of Sustainable and Responsible Investment at Raiffeisen KAG

Figure: How the way we shop has changed in the last 15 years

Source: Raiffeisen KAG, 2020 based on information from the Ellen MacArthurFoundation 7/2018

FAST FASHION

The production cycles for fast fashion labels are extremely short. Before the fast fashion trend was born around 25 years ago, a new collection had a lead time of as much as two years. This lead time typically consisted of the initial design, the processing of the required materials, the production of the garments, distribution, and finally sale in the shop. The fast fashion strategy allowed companies to substantially shorten the supply chains starting in the mid-1990s, including a reduction in the lead times to as little as five weeks or even less. Companies have even been able to react to customer preferences within a single season thanks to flexible and rapid supply chains for around 20 years now.

The growth of the textile industry over the past 20 years has been based primarily on volume, while price levels have been falling overall. Consumers are demanding more sustainability in the garment industry, but often end up buying cheap brands and cheap products.

A shift in the distribution channels in the fast fashion industry also began a few years ago. Sales through outlet networks and department store chains are contracting noticeably. By contrast, online sales are growing rapidly, and bargain chains have also captured more market share. »

FAST FASHION

IMPACTS ON THE ENVIRONMENT

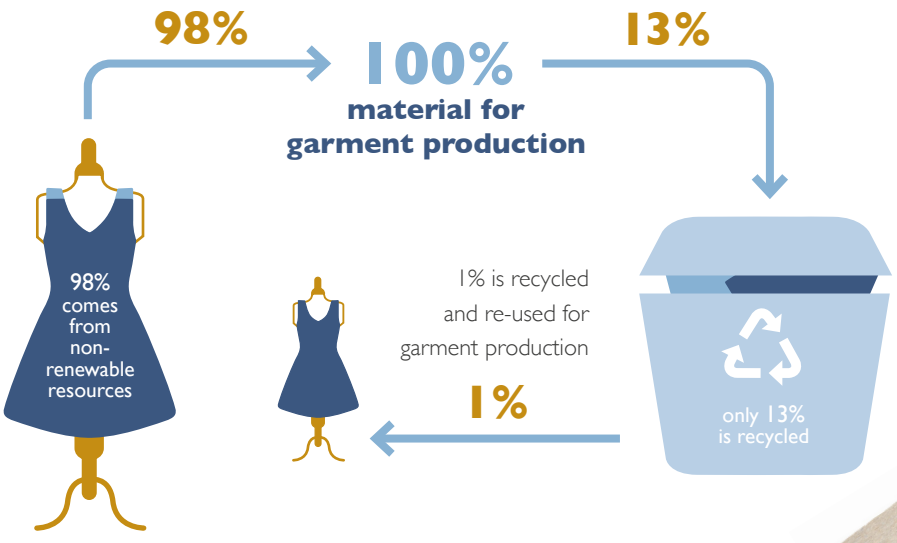
If the textile industry continues to grow at the current rate, the International Energy Agency (IEA) estimates that 25% of the world CO_2 budget could be used in this sector by 2050. This is based on the projected population growth on the one hand and the expansion and rising standard of living of the middle class on the other. Today, the textile sector accounts for 8% of greenhouse gas emissions worldwide, and emits more than the entire aviation and shipping industries combined according to IEA estimates. The main emission driver is the production of polyester, i.e. synthetic fibre.

The water consumption in the sector is very high, especially when cotton is used as a raw material. Some 2,700 litres of water are needed to produce a single cotton shirt.

An estimated 20% of global industrial water pollution stems from chemical dyeing, bleaching, and other treatment of textiles.

Around 12.8 million tonnes of used clothing is thrown away every year. Most of this ends up in landfills. The textile industry is also the greatest source of plastic pollution in the oceans. »

Figure: Minimal percentage of recycled material in garment production



Source: Circular Fibres Initiative (Ellen MacArthur Foundation)

FAST FASHION

SUPPLY CHAIN

A number of industry initiatives have been launched in recent years to lend more weight to ESG aspects in the textile industry. Some address issues such as greater transparency and fairness in the supply chains while other initiatives and joint ventures focus on research. Research goals include the development of alternative raw materials for the production of fibres that can be turned into clothing. Key alternatives are fruit-, fungus-, and food-based fibres and laboratory-grown fibres. However, these initiatives are only a feasible alternative at a larger scale if they do not result in competition with food production. »

Figure: Problems along the supply chain

Source: Raiffeisen KAG, 2020

ASSESSMENT OF THE TEXTILE INDUSTRY IN RELATION TO THE INDIVIDUAL SUSTAINABILITY CRITERIA:

E (environment):
The textile industry has a substantial CO_2 footprint when you include the upstream value chain. The high level of water consumption and water pollution are perhaps a greater challenge when it comes to textile finishing. Another important issue for the textile industry is the use of toxic chemicals and the associated management of hazardous materials.

S (social):
A large share of all labour rights violations around the world occur in the textile industry. The textile industry is characterised by a combination of relatively simple production processes and rather low technological requirements. The fact that the manufacturers at the lowest end of the value creation chain are highly interchangeable puts tremendous pressure on production costs, which in turn creates intense competition leading to lower wages and other expenditures in the factories.

G (governance):
The production process is often structured in a cascading manner in the textile sector. The entire supply chain – starting with manufacturing and continuing through many stages all the way to retailers – lacks transparency in many cases. The production that is outsourced to sub-suppliers is passed on to lower and lower levels, which ultimately creates problems for the contracting textile company when it comes to monitoring the supply chain. Government authorities must ensure suitable working conditions through laws and regulations. The monitoring of these regulations by the government and at the company level is also crucial. The problem of corruption, which can undermine effective worker protection policies, is significant in this context.

Conclusion:
Raiffeisen Capital Management currently invests in selected textile companies with a focus on sustainability at the product level and in terms of strategic orientation. It generally takes a more critical view of fast fashion, and places particular focus on initiatives that lead to a more sustainable orientation.

INITIATIVES

A number of industry initiatives have been launched in recent years to lend more weight to ESG aspects in the textile industry. Some address issues such as greater transparency and fairness in the supply chains while other initiatives and joint ventures focus on research. Research goals include the development of alternative raw materials for the production of fibres that can be turned into clothing. Key alternatives are fruit-, fungus-, and food-based fibres and laboratory-grown fibres. However, these initiatives are only a feasible alternative at a larger scale if they do not result in competition with food production.

OBJECTIVES

- Transparency and fairness in the supply chains
- Research and development for alternative materials

Sources: Ellen MacArthur Foundation, A new textiles economy: Redesigning fashion's future, (2017, http://www.ellenmacarthurfoundation.org/publications)
The World Bank: Consumption (as of November 2020)

MADE IN

Leopold Quell
Fund Manager for Emerging Markets equities, Raiffeisen KAG

Clothing and especially fast fashion articles are manufactured almost exclusively in Emerging Market countries. This is the only place that the associated labour-intensive production can be completed at competitive costs. It is thus no wonder that two thirds of the 1,300 companies that supply H&M are located in Asia – and the Swedish fast fashion pioneer's production chain employs a total of 1.6 million people. Inditex, H&M's largest competitor, even has 1,800 suppliers, and two million people are involved in manufacturing the clothing sold in the company's chains (above all Zara). The Emerging Markets dominate here, as well (especially Morocco and Turkey alongside Asia).

The collapse of the Rana Plaza building in Bangladesh that cost more than 1,100 lives in 2013 dealt a serious blow to the reputation of the garment industry because the poor working conditions of the mostly female staff in the factory were revealed to the broad public during the investigation of the catastrophe. Major fast fashion labels are actively countering this poor image and taking steps to prevent their business with cheap suppliers from ending in a PR disaster. One step they take is requiring local companies to comply with a detailed code of conduct in order to qualify as a supplier, ensuring decent working conditions for the local staff and including regular inspections. Another is by building trust through transparency. Especially the industry leaders H&M and Inditex have made it much easier in recent years to verify where and under what conditions their goods are produced.

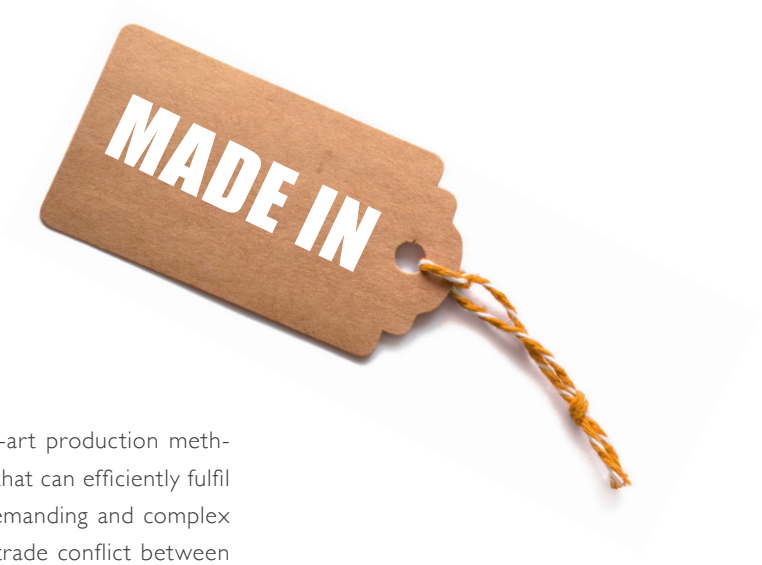
Average monthly wages (not including overtime) are higher than the local minimum wage in factories producing garments for H&M according to this company's sustainability report.

INSTAGRAM AS A GAMECHANGER

The conditions in the retail garment industry have changed notably. The growing importance of social media has even forced major firms to go on the defensive. The times in which the fast fashion labels can drive trends simply by investing enough in advertising are over. Celebrated head designers were quickly supplanted by a crowd of influencers. This makes it nearly impossible for industry leaders to predict what is or will soon be "in", let alone influence this. Fast fashion labels have to adapt by producing smaller initial lots and then reacting flexibly and rapidly to what trends take hold during the season. Thus, production is managed in shorter time intervals depending on sales levels.

Local store managers play a very important role in this because they focus »

→ EMERGING MARKETS



not only on sales volume but can also provide qualitative feedback on the direction demand is currently moving in. It thus comes as no surprise that only about 25% of the goods sold by Inditex are now produced in advance according to the investment bank Barclays. The remaining 75% are produced and delivered during the season based on sales volume and local feedback. The lead times here can be reduced to less than a month, and even to just two weeks in some cases. This allows companies to avoid producing goods that the market does not want, which would force them to sell these garments off at high discounts.

SUPPLIER 2.0

The supply chain has to be as efficient as possible to be able to react and produce this flexibly. To make this possible, suppliers have transformed themselves from pure contract manufacturers into supply chain co-managers. Shenzhou International is at the head of this pack. This Chinese company is listed on the Hong Kong exchange and successfully reinvented itself through vertical integration. It now covers nearly every stage in the supply chain at competitive prices and high volumes, thus winning and holding on to customers such as adidas, Puma, and Uniqlo. But not only that – substantial investments in research and development have allowed Shenzhou to build state-of-the-art production methods and facilities that can efficiently fulfil even the most demanding and complex orders. And the trade conflict between China and the USA has not hurt the company. Broad geographical diversification (presence in Cambodia and Vietnam in addition to China) enabled Shenzhou to shift orders from US customers to sites in countries that are not impacted by the trade restrictions.

A BIGGER PIECE OF THE PIE FOR THE EMERGING MARKETS

Not only the rising share price shows how successful the company is, but also its market capitalisation of around USD 27 billion. This makes the company nearly as large as H&M. Which shows that the balance of power has shifted. The dominant fast fashion players were long in a position of strength versus their suppliers in the Emerging Markets. If a producer tried to charge higher prices, there was a real risk of being replaced by a different company. Shenzhou was one of the first companies to break out of this pecking order by becoming more of a strategic partner for its customers, guaranteeing the flexibility that is so important at the point of sale. This means that Shenzhou is not as easy to replace and can thus take a much bigger piece of the pie.

Under the moderation of Dieter Aigner, Managing Director of Raiffeisen KAG

Virtual round-table discussion about the many facets of sustainability in the textile industry and how they are ignored

Nunu Kaller
Austrian publicist, environmental activist, and blogger

Heike Hess
Director of the Berlin office of the Internationaler Verband der Naturtextilwirtschaft (IVN)

Leopold Quell
Fund Manager for Emerging Markets equities, Raiffeisen KAG

The large quantities of clothing that are sold due to cheap production and the short time that such garments are worn cause a host of ecological and social problems. The textile industry is sharply criticised by environmental activists. What is going wrong here?

Nunu Kaller: It starts with the wages being paid to workers in the factories. These people need to receive a living wage. The living wage is calculated for each country by independent organisations and specifies the amount of money needed each month to maintain a basic but decent standard of living. Many textile companies do not pay such a wage. And there is a lack of transparency. Even if some garment manufacturers try to polish their image by publishing the names of the factories and companies that produce their clothing articles in Bangladesh and other places, this says nothing about their sustainability.

Can you explain that?

Nunu Kaller: Aside from the fact that these names don't tell the consumer anything, nothing is stopping the owners of these factories from concluding contracts with less strict sustainability criteria with other companies. It is very important to demand transparency here. And we need strict, independent auditing. I remember the collapse of a factory in Bangladesh seven years ago, where more than 1,000 people lost their lives and 2,400 were injured. And the survivors are having a hard time finding new jobs because they are so traumatised. This means that the impacts are very far reaching, and not even the generally accepted minimum labour and social standards of the ILO (International Labour Organization) are complied with in most cases.

What are the ecological problems?

Nunu Kaller: There are very many, unfortunately. For example the materials that the garments are made of. Except for in athletic clothing, where it serves a functional purpose, I think that polyester is very, very bad. But it is used almost everywhere today in fast fashion: summer dresses, blouses, shirts – they are all made of polyester because it is the cheapest material and can be modified in many ways. When polyester products go through the wash, large amounts of microplastic get rinsed out and cause one of the greatest environmental problems we have. Because it cannot be removed by sewage treatment plants and you cannot get it back out of the water or off the fields, where it gets deposited with the sludge. One study estimates that there are 14 million tonnes of microplastic in the oceans, and because it sinks, most of this is on the sea bed[1]. We have to »

1 https://www.nau.ch/news/ausland/studie-auf-meeresboden-lagern-14-millionen-tonnen-mikroplastik-65796495

"WE NEED A GREENWASHING-CHECK!"

stop this. We must stop polyester production, which now accounts for over 60 per cent of the total fibre market.

So we would achieve a lot by transitioning to rayon or cotton…

Nunu Kaller: Consumers believe that they are doing something good for the environment when they buy rayon garments. But if this fabric contains a synthetic fibre – as is often the case in the form of elastane – it can no longer be recycled, or there are at least no systems for this yet that are ready for market use. This equates to the direct production of waste. One hundred per cent cotton can be recycled. One hundred per cent rayon can be recycled. Blended textiles cannot. At least not right now, even though a great deal of research is being conducted into the separation of the fibres.

Clothing used to have a much higher value. What role does pricing play in this context?

Heike Hess: We have a fundamental problem on the consumer end of things, and that is the decline in the value of garments. If I buy three T-shirts at a bargain store today, I will cost me 10 euros. If I buy three loaves of bread, it will also cost 10 euros. This means that good bread now costs just as much as a bad T-shirt. Garments used to be darned, repaired, dyed a different colour, and passed down so that they could be worn longer. Things are simply different today. A person with an average income can now afford to buy one or more new pieces of clothing a week. And that is exactly what fast fashion is. The industry is creating the trend and tells consumers that it isn't cool to wear a garment more than a couple of times. As a result, these brands no longer launch two collections per year like they used to, but 12, 16, or even as many as 30 collections each year. That is insane! And this of course has a negative impact on the sustainability and quality of the products.

What makes such prices possible?

Heike Hess: In addition to the low wages that we already talked about, the raw materials are cheaper and less money is spent on environmental protection. And then there is transport. If I grow, manufacture, and sell at a location with good wages and high environmental standards, that is often more expensive than sending the same product halfway around the world to work under less strict regulations and pay lower wages. When the consumer prices here in Europe are only 10 to 15 per cent above the cost of the raw materials, that is simply unacceptable. Because the cotton for a T-shirt has to be planted, grown, harvested, spun, and dyed, and then the garment has to be knitted or sewn, transported, marketed, and sold. How is this possible at that price? The negative impacts are simply too many to count. We need to be aware of that. We now know most of the sustainability indicators. We know that we don't pay enough. We know that children are exploited. We know that buildings collapse. We know that chemicals pollute the rivers. We know that species are being wiped out. We know all of this. There are no doubts in anyone's minds.

What can we do?

Heike Hess: As an industry association for dealers and manufacturers of sustainable textiles, IVN represents the interests of its members and also acts as something of a watchdog in the industry. We point out specific problems when companies claim to be sustainable. Because we want to know if that is really true, and dig deeper. We try to communicate this in a clear manner with our two quality seals, GOTS (Global Organic Textile Standard) and the extremely stringent NATURTEXTIL IVN CERTIFIED BEST – in other words, we try to make the good companies easy to recognise. This enables consumers to make the right purchasing decisions. But our lawmakers need to enact regulations for the business deal- »

Dieter Aigner conferencing with Nunu Kaller, Heike Hess, and Leopold Quell

ings between the companies operating the brands and the supplier countries and for corporate responsibility, or for due diligence as the OECD calls it. This is still voluntary. This means that we have no laws governing supply chains, no mandatory assumption of responsibility, so companies can exert such tremendous pressure on their business partners in the supplier countries.

Nunu Kaller: I would like to add that the price you pay for an article of clothing says absolutely nothing about how sustainably it was produced. Often, it is all just a giant marketing ploy. The price is never an indicator of how sustainable a product is. I have been investigating this for eight years now and have come to the conclusion that trying to make the bad actors good makes little sense. A fast fashion company can do so many things to look more sustainable. This may sound cynical, but it can reduce the bad chemicals, transport its garments to Europe by horse, and hire deaf-mute seamstresses. But their core business remains the same: selling as much clothing as possible and as quickly as possible to as many people as possible. As long as the core business is so unsustainable, anything done to make it look better is just some green sprigs. There are companies that go about it differently from the ground up. But these are the companies that have less potential on the market because they are competing with these giants. I think that investor support is a great opportunity for these companies.

Leopold Quell: Just because a textile company sets up some recycling boxes or has a product line made of organic cotton in its assortment, it is still far from being a sustainable company. There simply is not enough pressure from consumers in this regard. Many don't even know exactly what they are buying, and others just don't care. So some retail chains have a fairly easy time of it. I find it interesting that many of the consumers of fast fashion – and I dare say that a lot of them are young people – like to showcase in social media how sustainable their lifestyle is, for example in terms of food. But they apparently do not yet have any awareness for clothing.

Nunu Kaller: The one with the money has the power. But when you look at the big picture, you have to admit that the power of the individual consumer is finite. The social media are a good example of this. Because it is a proven fact that this technology has shortened our attention spans. And not just as an isolated phenomenon. This makes it very easy to tell a consumer that something is sustainable. And rarely does anyone ask »

questions. In a world so full of greenwashing and where the consumer is promised the moon and the stars, I find it difficult to say that consumers do not know what is going on. I believe that the side that has a lot of money is in fact shirking its responsibility, and that is not right.

Greenwashing is something else we should talk about. What can we do against that?

Nunu Kaller: I believe that some industries are in desperate need of greenwashing checks. Including the textile industry. Some initiatives that are touted as sustainable are pure greenwashing. I also call this out in my publications. Farmers are given genetically modified cotton seed that is not perennial, meaning they have to buy new seed every year. But because they are in a special programme to "improve" the cotton (but that has nothing to do with organic farming), this cotton is sold as sustainable. Consumers are pleased because they think they have made the "right" choice and done something good. But they have not. We need to provide more and better information here.

Many people have no idea how dirty the textile industry is. Do we perhaps need more government control?

Heike Hess: I am involved in the Partnership for Sustainable Textiles. And if my membership in this multi-stakeholder project has taught me anything, it is that it does not work if you only attack from one angle. You need to go at the big picture. We need our elected officials. We need laws. We need the public at large. We need the consumers. We need the press. We need the manufacturers. And we need the retailers. Only if all of these stakeholders want to make a positive change we will actually see an improvement. Many manufacturers and retailers want to make things better, but do not know how to reconcile sustainability and economic efficiency. Many now have sustainability departments and are trying to make genuine improvements. But you have to look very carefully for greenwashing. We also need our lawmakers, and it would be nice if they would actually take the various stakeholders seriously, aside from the conventional textile lobby. And we need a greenwashing check here, as well.

Nunu Kaller: Little can be done here at the national level, we need an international or at least European approach. If you can gain access to these decision-making processes as an external player, it is very important to represent a consistent ecological and social position. And I think that investors have a good chance at that. When trying to influence policy decisions, you must be very wary »

ROUND-TABLE DISCUSSION

of compromises. I unfortunately do not see this hard line in European policy. A lot could be achieved by not only prohibiting the importation of certain chemicals themselves, but also as part of a product, for example. This would trigger a massive reaction along the entire chain. More simply must be done.

What is the investor perspective on this topic? Are the sustainable market players interesting for investors at all, given that profitability is also a goal alongside sustainability?

Leopold Quell: Major textile retailers are unattractive for us as an investment at this time. Both because of the lack of sustainability and because of the low profitability. Up-and-coming listed companies that are clean from a sustainability perspective can be very interesting for us, however. For example producers of new materials such as banana fibre or mushrooms. However, these opportunities are limited because we also require corresponding market capitalisation and liquidity in order to make an investment.

Heike Hess: I suspect that the truly sustainable companies are usually not listed on the exchange because they are simply too small, at least the trading companies. But there are major spinning groups that have sustainability divisions. Current efforts are aimed at optimising raw material use in production and reducing chemical use. And there are some fibre development initiatives that have not yet come along far enough to be interesting for investors. Anyone who wants to invest responsibly in the major players and who values sustainability is well advised to take a very close look or to get competent advice. Because it is impossible to say for all companies which sustainability parameters make good garments. The issue is complex and multi-faceted. That is why there are so many quality seals. It is very difficult or even impossible for companies to fully meet all sustainability criteria and be profitable.

Nunu Kaller: The issue of PLA, polylactic acids, is also relevant for the textile industry. PLA can be produced in a way that has a substantial detrimental impact on the environment, or in a very, very sustainable manner. And these production processes are already being run at a large enough scale that there are investment opportunities.

I see more than one interesting investment theme in our future.

Leopold Quell: We want the good, but also want the profitable. Our power as a responsible investor is in buying something or intentionally not buying something. And we want to be able to »

communicate this clearly. Being a little bit good is not enough. We are confident that many sustainability stars will rise over the next ten years. Sustainable companies will be able to offer solutions for pressing problems of our time. This will hopefully also include the garment industry.

SUSTAINABILITY LABELS

NATURTEXTIL IVN CERTIFICIED BEST

This quality seal is especially known in Europe and applies the most stringent standards for textile sustainability, and is the highest level of quality that can be certified at present.

BEST applies the guidelines for natural textiles drafted by Internationaler Verband der Naturtextilwirtschaft e. V. (IVN) in 2000 and covers the entire textile production chain from an ecological and social responsibility perspective. Detailed information on the seal can be found at https://naturtextil.de/qualitaetszeichen/qualitaetszeichenbest/

GOTS

The Global Organic Textile Standard is the minimum standard that natural textiles must fulfil in the opinion of IVN. It is an internationally established standard that benchmarks environmental and social compatibility in textile manufacture. This globally known and prevalent seal is awarded by GOTS gGmbH, which is partially owned by IVN. The requirements for GOTS are somewhat less stringent than those for NATURTEXTIL IVN CERTIFIED BEST. It is the minimum standard that products must meet in order to be recognised by IVN as genuine natural textiles.

More information about the differences between the two standards can be found here: https://naturtextil.de/qualitaetszeichen/gots/

SUSTAINABLE DEVELOPMENT GOALS

SUSTAINABLE DEVELOPMENT GOAL 12 (SDG 12):

Ensuring sustainable consumption and production

The economic and social progress achieved over the last century has also resulted in detrimental effects on the environment that are now putting the very systems upon which our future development and even our survival depend at risk. If the world's population grows to 9.6 billion by 2050, we may need the equivalent of nearly three of our planets to provide the natural resources needed to maintain our lifestyle.

On the other hand, it is estimated that one third of all food that is produced every year simply goes to waste – 1.3 billion tonnes worth around a trillion dollars. Landing in household and supermarket waste bins or spoiling due to poor transport and harvest practices.

Sustainable consumption and sustainable production is about achieving more and better with less. It is also about decoupling economic growth from the destruction of the environment, increasing resource efficiency, and promoting sustainable lifestyles. And in this way achieving general development goals; reducing future economic, ecological, and social costs; raising economic competitiveness; and reducing poverty.

THE UN HAS SET THE FOLLOWING RESPONSIBLE PRODUCTION AND CONSUMPTION GOALS FOR 2030, WHICH HAVE ALSO BEEN INCORPORATED INTO THE AUSTRIAN FEDERAL GOVERNMENT'S 2030 AGENDA FOR SUSTAINABLE DEVELOPMENT (SLIGHTLY ABRIDGED):

✓ Implement the 10-year framework of programmes on sustainable consumption and production, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries.*

✓ Sustainable management and efficient use of natural resources.

✓ Halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.

✓ By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water, and soil in order to minimize their adverse impacts on human health and the environment.

✓ Substantially reduce waste generation through prevention, reduction, recycling and reuse.

✓ Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.*

✓ Promote public procurement practices that are sustainable, in accordance with national policies and priorities.*

✓ Ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.

✓ Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production.*

✓ Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products.*

✓ Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities.*

* No time frame has been defined for these objectives

References: un.org/sustainabledevelopment/economic-growth, sustainabledevelopment.un.org, bundeskanzleramt.gv.at/themen/nachhaltige-entwicklung-agenda-2030

Andreas Perauer
Member of the Sustainability Team at Raiffeisen KAG

CORPORATE ON

The idiom "clothes make the man" is said to date all the way back to the 16th century, and still evidences that the impression that a person makes depends (in part) on how they are dressed. Finding the right dress, the right suit, or the right pair of shoes for the given occasion was just as important back then as it is now. But today in particular, consumers would rather have one too many garments to choose from rather than one too few. This is good for the fashion labels, but less so for the environment.

The shareholder engagement activities of Raiffeisen Capital Management's SRI team with regard to the topic of fast fashion include discussions with some of the biggest listed companies in the textile industry. The following questions were asked in this process:

1 We have witnessed a trend towards fast fashion over the past ten years. How has this trend impacted your company?

2 The fashion industry has an enormous ecological footprint. Key issues include greenhouse gas emissions, water consumption, and waste generation. What is your strategy for countering this growing footprint?

3 We see rapidly growing awareness of the impacts that the fashion industry has on the environment among consumers and investors, which is a source of financial risk for your company. What is your perspective on this trend? Are there initiatives in your industry to counter this risk?

The responses to these questions can be summarised into the following statements and results.

1 The partial digitalisation of the industry has doubtless made a key contribution to the accelerated pace in the world of fashion. This was confirmed by the Swedish fashion giant Hennes & Mauritz (H&M) and by the German garment manufacturer HUGO BOSS. The latter reported that around one third of the designs in the HUGO BOSS collections are now developed entirely digitally. The proprietary electronic workflows allow for greater flexibility at every stage of the value chain, which means shorter time to market and more rapid reactions to consumer trends. The group can also account for the needs of its business partners more flexibly and at lower cost, for example by reducing the pattern costs or offering additional options for the combination of cuts and materials. The French fashion group Kering does not see itself as part of the fast fashion industry with its brands such as Gucci, Saint Laurent, and Balenciaga. On the contrary, it strives to ensure the durability and long life of its products »

VOICES FAST FASHION

through strict quality control and strategic and technical expertise. The athletic wear manufacturer Nike also does not see its products as fast fashion articles, but seeks to provide lasting value through innovation and quality.

2 Next, one of the largest British garment retailers with over 400 outlets, still sees climate change as one of the greatest global challenges for society and is acting accordingly. The company has reduced its water footprint by 43% and its carbon footprint by 25% per tonne of clothing sold since 2012 by shifting to the procurement of more sustainable and recycled fibres such as better cotton, organic cotton, and recycled polyester. It also uses dyeing techniques that consume less energy and water. Nike is pursuing a similar strategy, also focusing on the use of recycled materials, especially polyester and sustainable cotton. Over 7.5 billion plastic bottles have been diverted from landfills and waterways and turned into recycled polyester shoes and garments since 2010. Three quarters of the shoes and clothing articles from Nike already contain recycled materials, from shoe uppers to entire jerseys. The switch to sustainable cotton has also saved 53.5 billion litres of water and reduced the use of pesticides by 200 tonnes. H&M sees a great deal of untapped potential in the use of sustainable cotton. Less than 1% of the cotton produced around the world is grown organically due to the lower productivity. H&M wants to change this and is collaborating with the organisation Organic Cotton Accelerator (OCA), of which H&M itself is a founding member, to help Indian farmers obtain training, seeds, premium prices, and above all sales guarantees for their organic harvest. H&M is also one of the most important supporters of the 2030 Water Resources Group, a partnership initiated by the World Bank to maintain the groundwater reserves in the greater Dhaka area in Bangladesh. A look to Asia reveals that Fast Retailing, a Japanese group that is one of the largest garment retailers in Japan through its subsidiary Uniqlo, is deploying new technologies in its shops and offices and using renewable energy to reduce its greenhouse gas emissions. The emissions from the Uniqlo shops have declined by close to one third since 2013.

3 The companies we contacted are very aware of the increasing awareness and interest of investors and customers with regard to the environmental impacts of their business activities. According to HUGO BOSS, this can be seen in the growing number of enquiries into these issues and higher demand for the "Responsible" product line, which consists of articles with at least 60% certified more sustainable raw materials. According to HUGO BOSS, joint initiatives are important because it is a very complex task for individual companies to work directly with raw material suppliers in many cases. The Better Cotton Initiative reaches a large number of cotton farmers directly, for example, thus promoting the sustainable production of cotton. Another notable initiative is the Fashion Pact unveiled right before the G7 Summit in 2019, a coalition of fashion companies aimed at protecting the climate, biodiversity, and oceans. The initiative contains a series of common objectives and is a milestone in the fashion industry in terms of its scope and the significance of the coalition that has been formed. The objectives include the use of 100% renewable energy at the signatories' own sites, the complete elimination of problematic plastic, the use of recycled plastic for packaging, a stop to deforestation, and the promotion of sustainable forest management. One year after being announced, the Pact already has over 60 signatories that together represent more than 200 brands and one third of the fashion industry.

ADIDAS AG

ADIDAS AG

adidas AG is one of the world's leading manufacturers of sporting goods and offers a wide range of clothing, shoes, sports equipment, and accessories under its two core brands adidas and Reebok. The group has over 59,000 employees and sold more than 1.1 billion articles in 2019, generating revenue of EUR 23.64 billion. The company is headquartered in Herzogenaurach, Germany.

ECOLOGICAL FOOTPRINT

Water is one of the key resources for the textile industry, making its responsible use all the more important. adidas is aware of this and employs individualised water management solutions at each of its sites. A key difficulty encountered by the company is collecting water consumption statistics. Due to non-standard measurement methodologies at some locations, the collected data may contain water consumed by adidas as well as by other tenants at the same site, for example. adidas is developing sub-metering solutions at such sites to address this problem and to be able to allocate the total consumption accurately among the individual tenants. »

COMPANY SUSTAINABILITY SPOTLIGHT

adidas uses a holistic approach to reduce its own water consumption. This ranges from increasing the efficiency of water use at the various sites and installing efficient sanitary facilities to ongoing employee training in the proper use of water. This enabled the company to surpass its 32% cumulative annual water consumption reduction target for 2019 by 5 percentage points, lowering its water use per employee by 37% in that year.

adidas is also striving to reduce its greenhouse gas emissions. To this end, it is employing efficient and smart technical infrastructure such as photovoltaic systems and LED lighting and is also obtaining energy from renewable sources or is purchasing corresponding certificates. These measures have led to a 52% cumulated net reduction in emissions since 2015.

INNOVATION AND RECYCLING

adidas strives to develop products that offer high performance and to manufacture them in a sustainable manner. A key focus here is innovation. For example, adidas collaborates with the environmental organisation Parley for the Oceans to avoid plastic at its own sites and to prevent plastic from ending up in the oceans. One result of this collaboration is the production of shoes from recycled plastic waste from beaches and coastlines. After producing five million pairs of shoes in 2018 and eleven million pairs in 2019, adidas expects to produce 15–20 million pairs this year.

In future, products are also not to be disposed of as waste at the end of their useful life but recycled as a valuable resource for new products. adidas recycles excess pilot versions of products and products that do not meet its quality standards, thus already taking a step in the right direction. Waste flow analyses were also conducted at the sites in recent years to reduce the volume of non-recyclable refuse through recycling and organic composting. However, the company has fully exhausted this potential at some sites due to insufficient or entirely lacking waste collection in the respective countries. Roughly 44% of the sites currently have a functioning waste tracking system.

SUPPLY CHAIN

The textile industry has been subject to sharp criticism in terms of the working conditions at suppliers in low-wage countries, especially since the incidents at Rana Plaza. adidas applies its own workplace standards in this sensitive area, requiring its suppliers to comply with what is essentially a code of conduct. The standards conform with the labour and human rights standards of the International Labour Organization (ILO) and the United Nations (UN) and are included in the supply contracts that adidas concludes with its business partners. Announced and unannounced audits are conducted by specially trained employees and recognised external auditors to monitor compliance with the standards. The results are evaluated to determine if action must be taken. Such action can range from mandatory training or other improvements in the supplier companies to warnings or even the termination of the business relationship. A total of 1,191 audits were conducted in 2019, covering 49% of the supplier companies and licensed factories. The share of audited companies in countries with a high level of risk is close to 100%. Asia, the most important procurement region for adidas, has 75% coverage.

BECOMING A CO_2-INVESTMENT

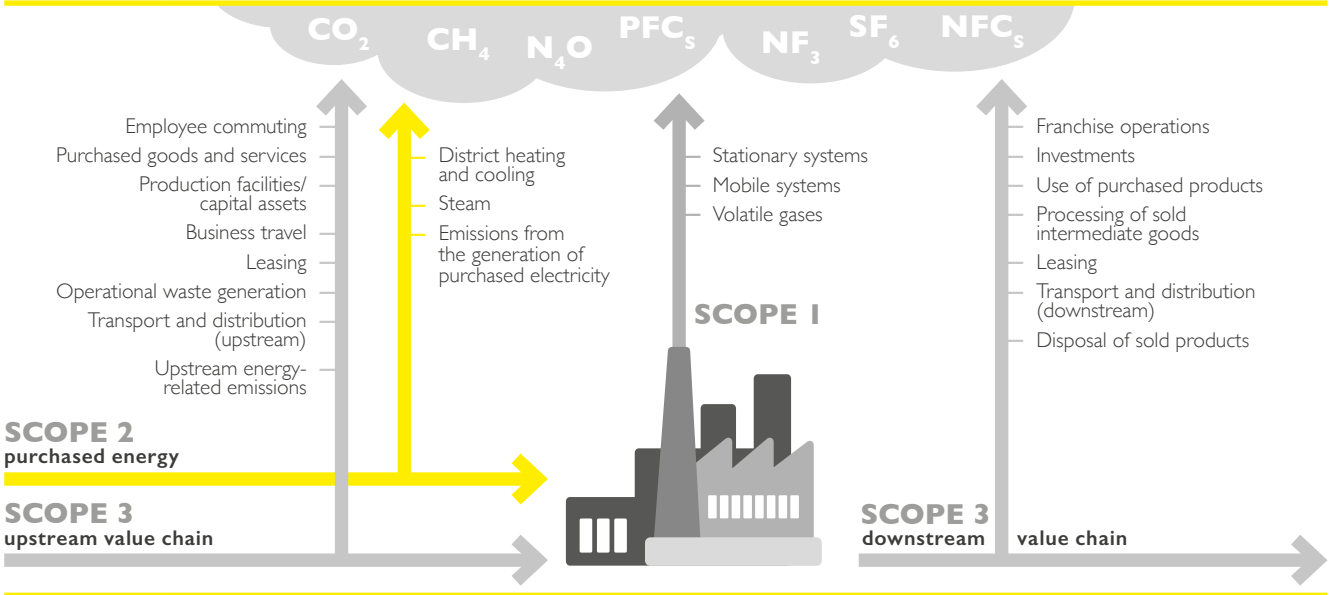
The concept of "CO_2 neutrality" is becoming more and more important. Our postal service operates with zero net carbon emissions, making it CO_2 neutral; 50 airports in Europe plan to be carbon neutral by 2030; and CO_2-neutral fuels are even in development. What does that mean, and what can an investment firm do in this context? The need to act had become evident by the time the Paris Agreement was signed in 2015.

The problem is often only considered from the perspective of industrial processes, frequently called "human emissions" of CO_2. Carbon dioxide is not the only relevant substance, but the greenhouse gases in general that include methane (CH_4, natural gas), nitrous oxides such as N_2O (laughing gas), and fluorinated hydrocarbons*. In other words emissions from our economic systems that are changing the global climate, as substantiated by the majority of scientific research. That there is evidence to the contrary, even if it usually comes from studies financed by interest groups, lies in the nature of a pluralistic society and is not a problem in and of itself. The empirical evidence supports clear conclusions: Something must be done, and we all must act – governments, companies, and individuals. A large number of small steps can also lead to great progress, but action must be taken in any case.

WHAT GETS MEASURED GETS DONE

What can a financial services provider like an investment firm do? First there is business ecology, in other words the production of pollutants in operational processes. Or to put it a different way, the documentation of emissions directly on the basis of measurements or indirectly by derivation from other metrics such as consumption and allocation to organisational units, processes, products, and »

Figure: Emissions categories



Source: EnergieAgentur NRW, http://www.ccf.nrw.de/navi/downloads/emissionsquellen/Emissions_Kategorien_Scopes.pdf

* Conversion into CO_2 is necessary to express these quantities in CO_2.

NEUTRAL FIRM

Klaus Glaser
Global Portfolio Advisor and expert for corporate social responsibility at Raiffeisen KAG

services. This "carbon accounting" differentiates between three emission scopes under the common standards. Scope 1 emissions stem from sources within the company, such as internal heating and cooling systems or machines. These can clearly be assigned to a company. Scope 2 emissions occur during the generation of power by the external suppliers, and purchased electricity, heating energy, and cooling energy quantities are internalised. Scope 1 and 2 can now be added together and would represent the minimum published CO_2 data, but would not go far enough. An imprecise component of carbon accounting that is certainly distorted by redundant accounting is Scope 3, the other emissions from upstream and downstream processes related to the business activities. These are usually emissions from suppliers, service providers, employees, and the sold products or services. One clear example: The CO_2 footprint of the vehicles sold by an automaker are assigned to Scope 3 while the actual production activities are assigned to Scope 1 and 2. Scope 3 emissions account for over 90% of the total for products such as vehicles and washing machines, which opens up great potential for controversies. It is more difficult to evaluate the CO_2 footprint of governments. What belongs to the government? From a production perspective, the focuses would be on transport, agriculture, and industry. An alternative would be a calculation based on overall consumption in the economy. But this also opens up great potential for discussion.

AVOID, REDUCE, COMPENSATE – IN THAT ORDER

But back to our company. Our parent company Raiffeisen Bank International has already been using carbon accounting for over ten years and is constantly refining the underlying database. It serves as the basis for the annual sustainability report, and thus for very high ratings from external auditors. Raiffeisen Kapitalanlage-Gesellschaft itself is one element, but a very specific element. As a specialised provider of investment funds, the operational CO_2 footprint is relatively low with primary sources being office buildings and business travel.

The office building is only a few years old and meets modern environmental standards. District heating and cooling and electricity from renewable sources make key contributions to avoidance and reduction. Additional improvements come from cutting back short-haul flights or replacing them with rail travel, and the increased use of telecommunications. Business travel, assigned to Scope 3, is usually included in company sustainability reports, but the impact of employee travel to the workplace is often not – but Raiffeisen Capital Management also takes this into account. One proven reduction method here is the "job ticket", a free annual public transportation pass. And another positive factor at present is teleworking, though the exact effects must still be evaluated. And the remainder, around 4 tonnes per person and year, is compensated for by a project that is being conducted with the scientific support of the University of Natural Resources and Life Sciences. This "neutralises" not only our energy consumption, but also business travel. Does that mean we are done?

No, we are just at the start of a long process because we must also take a look at the emissions inventory of the investment portfolio. This would also be assigned to Scope 3, just like the vehicle fleet sold by an automaker as illustrated above, because the assets are not owned by the investment firm, but are only administered by it. We currently calculate such footprints for our SRI funds and plan to roll this out for our complete portfolio of around 200 funds. Another approach is an externally calculated stress test of the Paris climate goals that was begun very recently, but no results are yet available. It will not be possible to evaluate measures until such metrics are consistent and have been proven. But we must tackle this key challenge. Now, because Raiffeisen Capital Management is committed to becoming a credible, CO_2-neutral company!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