



D4.6

## Policy Recommendations

Supporting startups, designers and SMEs in setting up, running and scaling up sustainable business models in the fashion industry

[info@fashionforchange.eu](mailto:info@fashionforchange.eu)  
[fashionforchange.eu](http://fashionforchange.eu)



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Abstract	<p>As part of WP4, this report aims to propose guidance to legislators at the EU and national levels in regard to regulatory rules, instruments and programmes that would support fashion designers, startups and small and medium sized enterprises in advancing with sustainable business models. It primarily draws its suggestions from the insights and conclusions from the “Analysis of the Challenges, Needs and Existing Solutions” Report (D1.3) produced earlier in the project, the interaction with participants during the Growth Programme, and the authors’ expertise as policy officer at the Ecopreneur.eu – The European Sustainable Business Federation.</p>

Contributors	
Name	Organisation

Michael Laermann	Ecopreneur.eu
Arthur ten Wolde	Ecopreneur.eu
Peer Reviews	
Name	Organisation
Ramona-Riin Dremljuga	Civitta

## List of abbreviations

<b>CBAM</b>	Carbon Border Adjustment Mechanism
<b>CEAP</b>	Circular Economy Action Plan
<b>CIV</b>	Civitta Estonia AS (project partner)
<b>CS3D</b>	Corporate Sustainability Due Diligence Directive
<b>CSRD</b>	Corporate Sustainability Reporting Directive
<b>DPP</b>	Digital Product Passport
<b>ECHA</b>	European Chemicals Agency
<b>EEN</b>	Enterprise Europe Network
<b>EFRAG</b>	European Financial Reporting Advisory Group
<b>EKA</b>	Estonian Academy of Arts (project partner)
<b>EP</b>	Ecopreneur.eu (project partner)
<b>EPR</b>	Extended Producer Responsibility
<b>ESPR</b>	Ecodesign for Sustainable Products Regulation
<b>ESRS</b>	European Sustainability Reporting Standards
<b>EU</b>	European Union
<b>EU ETS</b>	European Union Emission Trading System
<b>KV</b>	Katalista Ventures (project partner)
<b>LCA</b>	Life Cycle Assessment
<b>PRO</b>	Producer Responsibility Organisation

<b>PPWR</b>	Packaging and Packaging Waste Regulation
<b>REACH</b>	Registration, Evaluation, Authorisation, and Restriction of Chemicals
<b>SIN</b>	Singleton (project partner)
<b>WFD</b>	Waste Framework Directive
<b>WP</b>	Work Package

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# 1. Executive Summary

Despite the fact that sustainable fashion designers, startups and small and SMEs are crucial for the transition of the textiles and fashion industry towards a circular economy, they usually **lack the expertise, time and resources to bring sustainable business models to scale**. Compared to large and established market players, they operate at a local or regional level with limited budgets and a restricted access to finance and, consequently, less support overall.

In this situation, fashion designers, startups and SMEs rely on the help of policy makers to tackle these challenges by **establishing a level playing field through effective policies, financial incentives and hands-on support mechanisms**. At the same time, they expect that these **mechanisms and policies cause as little administrative burden as possible**.

Based on the conclusions from the Fashion for Change project and in alignment with the three COSME peer projects S4Fashion, Small but Perfect and Circular Innobooster, this report puts forward a number of recommendations for the European Commission to consider when designing similar open calls in the future.

As it turned out, **personal contacts and one-on-one talks with experts and mentors** are most appreciated and regarded as highly effective. The same goes for networking and exchanging with fellow entrepreneurs from the same industry to **establish sustainable relationships of trust**.

Our main recommendation is that **future support programmes and projects should have an integrated approach to capacity building and collaboration activities by putting in place the “European Circular Business Hub”**, an EU-wide network of regional competence centres for circularity, where all resources, activities and results are consolidated and shared. These centres should allow SMEs, startups and designers to easily draw on circularity experts, potential partners and useful resources, including online tools, without administrative burden.

**To pay for services provided by third parties, we recommend free financial vouchers** sponsored by the EU as part of cascade funding schemes like the ones coordinated by EISMEA. In accordance with the overall goal to accelerate and scale up innovation applications for a sustainable and circular fashion industry, these regional competence centres for circularity would benefit any company seeking support, no matter the size, type, location or level of expertise.

## 2. Introduction

### 2.1. Purpose of the Report

The purpose of this report is to propose guidance to legislators at the EU and national levels in providing regulatory rules, instruments and programmes to support fashion startups, designers and SMEs in setting up and running their business on circular or and succeeding with sustainable business models. It primarily draws its suggestions from the insights of the Fashion for Change project, including the conclusions from the “Analysis of the Challenges, Needs and Existing Solutions” Report (D1.3), the Open Call and Growth and Investor Ready programmes, as well as the expertise of Ecopreneur.eu – The European Sustainable Business Federation.

D1.3 outlines the key challenges and needs encountered by fashion designers, startups and SMEs when developing or adopting circular business models for their fashion business. Consequently, the conclusions and recommendations of this report are geared towards both the companies that already pursue a sustainable business approach and those that consider adopting it.

### 2.2. The Fashion for Change Project

The Fashion for Change project was called to life to help SMEs, designers and startups in the fashion sector accelerate and scale, supporting them in becoming more sustainable and in turning their business model into a circular one. The project consortium consists of five partners (Civitta Eesti AS, Estonian Academy of Arts, Ecopreneur, Katalista Ventures, Singleton Group) from three countries (Estonia, Lithuania and Belgium), combining the expertise of experienced players in sustainable fashion, business support and innovation management in circular economy and fashion.

The overall aim of Fashion for Change was to guide entrepreneurs of the European fashion industry towards a sustainable and circular business model, bringing together startups, designers, SMEs and experts of circular economy and sustainable business.

In brief, the project consisted of the following activities:

1. mapping circular fashion actors and analysing their needs;
2. building an online “Knowledge Hub” for resources useful to the sustainable and circular fashion community;
3. develop and carry out the methodology for the “Fashion for Change” Growth Programme and propose its replication toolkit.

The project first identified 35 qualified sustainable fashion designers and startups to present their promising ideas at a “Fashion Sprint Designathon”. From these teams, 25 transnational projects were accepted to the Growth Programme and granted financial support of 10.000 EUR per team.

The programme consisted of an accelerator programme with mentoring support regarding business, design and technical issues including study trips. From these 25 teams, the five most qualified received an additional 5.000 EUR each. They used it to increase their investment readiness through investor meetups, personal coaching and a critical revision of their business plans. They were also promoted at events and through social media to increase public awareness in the fashion industry, among decision-makers and consumers about their ideas, products and services.

All of these stakeholders had access to the Fashion for Change Knowledge Hub<sup>1</sup>, an online platform giving access to specific information and resources related to the sustainable fashion industry. By sharing best practices, useful resources and contacts, Fashion for Change aimed to share the output and impact of the project with a wider audience other than the participating teams and beyond the project duration. To this end, the policy recommendations and replication toolkit reports will be made available to the public at the end of the project.

## 2.3. Methodology

Our policy recommendations are based on insights gained from the Fashion for Change Growth Programme<sup>2</sup> and Investor Ready Programme (phase 1 and 2) as well as the policy work Ecopreneur.eu has been performing as a business federation since 2016. In this role, Ecopreneur.eu represents about 3.600 sustainable companies from seven EU Member States, most of them SMEs. Its mission is to help them accelerate the transition to a sustainable economy by advocacy and projects, with a focus on the circular economy.

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<sup>1</sup> <https://www.fashionforchange.eu/knowledge-hub/find-your-resource/>

<sup>2</sup> Results of the Open Call (D3.1), Fashion for Change



Staff members regularly facilitate training on circular design to groups of SMEs and large companies in the areas of textiles, packaging, manufacturing and construction. Over the five years, they have been mentoring SMEs, startups, and designers from the sustainable textiles and fashion industry on sustainability and circularity challenges. In 2020, the Federation published a report “Circular Fashion Advocacy” (2019) with concrete policy recommendations and an inventory of the potential impact of an EU circular fashion industry on non-European countries titled “Circular Fashion and Textile Production Countries”.<sup>3</sup> In its “Low-Carbon Circular Economy Advocacy Group” and the “Sustainable Textiles Working Group”, Ecopreneur.eu works together with sustainable pioneer companies on EU advocacy matters.

The experience from its advocacy work with stakeholders from the fashion industry provided Ecopreneur.eu a good basis for the initial qualitative and quantitative research about the challenges, needs and existing solutions for European fashion startups and SMEs (D1.3)<sup>4</sup>. The report was complemented by online research and ongoing feedback from consortium partners, the international teams and external experts involved in the Fashion for Change Open Call, Growth Programme and Investor-Ready Programme.

Further opportunities to gather insights were gained at tradeshow, workshops and online events as part of the accelerator programme, including the Fashion For Change Demo Days, the “Neonyt” sustainable fashion show in Düsseldorf, the Growth Programme’s Kick-Off, Matchmaking, Middle-pitch and “Fashion Sprint Hackathon” events, and a Q&A workshop. At the end of the project, insights and conclusions were validated in discussions with representatives from the COSME peer projects at a joint in-person event “Next4Fashion” held in December 2023 in Brussels.

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<sup>3</sup> Circular Fashion and Textile Producing Countries (Research Note), Ecopreneur.eu

<sup>4</sup> Supporting Sustainable Fashion Designers, Start-Ups and SMEs in the Circular Economy. Ecopreneur.eu

## 3. Policy Discussion

### 3.1. The Context

The environmental impact of the textile industry is enormous. According to a 2021 report by the European Commission's Joint Research Centre, textiles account for approximately 4-6% of the EU's total environmental footprint.<sup>5</sup> Globally, every second, a truckload of clothes is either burned or buried in a landfill. Waste is prevalent in every part of the fashion industry because of overproduction, overconsumption and problematic end-of-life solutions.<sup>6</sup> In the EU alone, 12,6 million tonnes of textile waste are generated annually. Clothing and footwear contribute 5,8 million tonnes of waste, equivalent to 11 kg per person every year.<sup>7</sup> Only 22% of post-consumer textile waste is separately collected for re-use or recycling; the remainder is often incinerated or landfilled.<sup>8</sup>

Considering the fact that SMEs constitute 99,8% of all businesses and contribute 60% of the total carbon emissions in Europe, sustainable fashion designers and startups have an important role to play in the green and digital transition of their industry. Sustainable SMEs are typically family owned, operating in local and regional markets. This makes them strongly community-oriented and value driven at the core. As positive examples and role models, sustainable fashion entrepreneurs help pave the way for the circular economy to become mainstream, especially now that the need for a change towards more sustainable practices across fields of life is more urgent than ever. Embedded in local and regional value chains, smaller fashion businesses can lead by example for more complex value chains to follow suit – their supply and value chains are shorter and hence easier to be overseen, managed and adapted. The same goes for material loops and resource management.

By shifting to more circular solutions, fashion brands and retailers can significantly reduce supply chain volatility and risk, expand business value while reducing impacts and material inputs and create future-proof business models. As a result, companies that have a sustainability compass in place are in the position to expand their consumer base, generate increased customer loyalty and brand reputation while attracting investments.

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<sup>5</sup> <https://publications.jrc.ec.europa.eu/repository/handle/JRC125110>

<sup>6</sup> <https://www.ellenmacarthurfoundation.org/topics/fashion/overview>

<sup>7</sup> <https://www.eea.europa.eu/themes/waste/resource-efficiency/plastic-in-textiles-towards-a>

<sup>8</sup> Circular Economy for Textiles, European Commission

However, even though these companies are crucial for the transition of the textiles and fashion industry towards a circular economy, they usually lack the expertise, time and resources to develop sustainable business models at scale. Compared to large and established market players, they operate at a local or regional level with limited budgets and a restricted access to finance and, consequently, less support in general. In addition, their efforts have been hampered by the effects of Covid-19, the war of aggression inflicted by Russia on the Ukraine, a shortage of skilled labour and disrupted supply chains, which led to an increase in inflation, the cost of raw materials, price fluctuations and austerity, to name only a few.<sup>9</sup>

With its “European Green Deal” and “Circular Economy Action Plan” (CEAP), the European Commission acknowledges the need for a resource-efficient, CO<sub>2</sub>-neutral, more resilient and circular economy. Even though the CEAP has brought progress, the implementation of new regulation to promote a sustainable fashion industry relies on the EU Member States. No matter their approach, putting in place a circular business culture requires education and capacity building, along with measures to promote a sustainable business case that is both compelling and economically viable. As explained in more detail in section [3.2 \(“Challenges”\)](#), these conditions currently are not met.

To tackle the issue of over-production and soaring pollution, the European Parliament presented a “Strategy for Sustainable and Circular Textiles” in 2022<sup>10</sup>. According to this strategy, textiles placed on the EU-market should be more durable, with their lifetime to be extended through easier repair, before they can get recycled into new products. The strategy is being put in action through new regulations like the EU Waste Framework Directive (WFD) or in the Ecodesign for Sustainable Products Regulation (ESPR), for example.

In addition, a set of general EU legislation is in the making, including the Corporate Sustainability Due Diligence Directive (CS3D), the Green Claims Directive, the Packaging and Packaging Waste Regulation (PPWR), and the Right to Repair Directive. In combination, each of these new EU laws are set to promote sustainable products and business models by applying the “Polluter Pays” principle, thereby sanctioning producers of “fast fashion”. The abovementioned laws are described in some detail as follows.

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<sup>9</sup> Economic Effects of the COVID-19 Pandemic on Entrepreneurship and Small Businesses, IZA

<sup>10</sup> EU Strategy for Sustainable and Circular Textiles, European Parliament

### **Corporate Sustainability Due Diligence Directive (CS3D)**

The CS3D<sup>11</sup> will require companies to take responsibility for their impact on human rights and the environment, and it gives stakeholders a stronger voice in holding companies accountable. The new rules will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe. It applies to all large companies in the textiles sector.<sup>12</sup> The draft is planned for finalisation in 2024. Once finalised, companies will have two years to comply with the new Directive.<sup>13</sup>

### **Waste Framework Directive (WFD)**

The WFD aims to improve waste prevention, recycling, and disposal practices across the European Union. The European Commission's revision proposes rules to make producers responsible for the full lifecycle of their textile and apparel products, including the development of the separate collection, sorting, reuse and recycling. In line with the EU Textiles Strategy, it intends to "make producers responsible for the full lifecycle of textile products and to support the sustainable management of textile waste across the EU.

This initiative will accelerate the development of the separate collection, sorting, reuse and recycling sector for textiles in the EU. It includes the introduction of mandatory and harmonised Extended Producer Responsibility (EPR) schemes for textiles in all EU-Member States with the fees based on 'eco-modulation'.<sup>14</sup> The WFD is under public consultation until the end of 2023 and aimed for adoption in late 2024.

### **Ecodesign for Sustainable Products Regulation (ESPR)**

The ESPR<sup>15</sup> aims to create a market for sustainable products by fading out the most unsustainable ones. For this purpose, it requests sustainability information from suppliers up and down the value chain in the form of a Digital Product Passport (DPP). For the textiles sector, the ESPR aims to phase out the least sustainable products from the EU market. Products would need to carry a label with a QR code or tag to access sustainability related information.

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<sup>11</sup> Corporate Sustainability Due Diligence Directive (EU) 2019/1937 (Proposal), European Commission

<sup>12</sup> The CS3D applies to all companies based in the EU with over 500 employees and a net worldwide turnover of more than €150M, third-country companies with a turnover in the EU of more than €150M, and companies based in the EU active in "high-impact sectors" which include textiles, with more than 250 employees and a net worldwide turnover that exceeds €40M

<sup>13</sup> A Guide to the Corporate Sustainability Due Diligence Directive, Anthesis Group

<sup>14</sup> Circular Economy for Textiles: Taking Responsibility to Reduce, Reuse and Recycle Textile Waste and Boosting Markets for Used Textiles, European Commission

<sup>15</sup> Establishing a Framework for Setting Ecodesign Requirements for Sustainable Products, European Commission

Through enhanced transparency, companies would be encouraged to design and produce items of higher quality that can be repaired, reused and recycled more easily. The draft proposal is being negotiated by EU co-legislators and planned for adoption in 2024. After adoption, a series of implementing acts will follow, with textile products being considered as a priority. Implementation of the DPP is expected by 2028.

### **Corporate Sustainability Reporting Directive (CSRD)**

The Corporate Sustainability Reporting Directive (CSRD)<sup>16</sup> entered into force in 2023. It mandates companies with more than 500 employees as well as publicly listed SMEs to report on social and environmental aspects of their products and services according to European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG).

Objectives include to increase awareness of sustainability and circularity in companies, increased capacity for sustainability assessment and reporting, considerable reduction of the room for greenwashing, facilitation of sustainable and circular procurement, competition between suppliers on sustainability and circularity, and facilitating communication about circularity between value chain partners. As a consequence, even smaller companies that are not directly subject to the CSRD will be expected to provide input for the sustainability reports of large customers and suppliers.<sup>17</sup>

### **Green Claims Directive**

Also known as the “Green Claims Directive”, the “Substantiation and communication of explicit environmental claims” Directive<sup>18</sup> aims to limit the use of unsubstantiated green claims and product labels through a standard methodology that assesses their actual impact on the environment to help consumers make sustainable choices. A provisional agreement was reached between the Parliament and Council in September 2023. The proposal needs final approval from the Parliament and the Council, which is not expected by the end of 2024.<sup>19</sup>

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<sup>16</sup> Corporate Sustainability Reporting Directive (EU) 2022/2464, Official Journal of the European Union

<sup>17</sup> Navigating CSRD: Why Sustainability Reporting Matters for SMEs, Vlaanderen Circulair

<sup>18</sup> Green Claims Directive, European Commission

<sup>19</sup> EU to Introduce New Rules on Greenwashing, Ashurst,

## **Packaging & Packaging Waste Regulation (PPWR)**

The PPWR aims to tackle the constantly growing source of waste. Considering the full life cycle of packaging, it establishes requirements to ensure that packaging is safe and sustainable by requiring that all packaging is recyclable and that the presence of substances of concern is minimised. It also sets labelling requirements to improve consumer information. The regulation sets out the requirements that all packaging placed on the EU market must meet, including essential requirements related to its manufacturing, composition, and reusable or recoverable nature. The new rules will ensure reusable packaging options, get rid of unnecessary packaging, limit overpackaging, and provide clear labels to support correct recycling.<sup>20</sup> Although the regulation does not directly target the textiles industry, it could have an impact on the industry's packaging and packaging waste management practices<sup>21</sup>. The PPWR is expected to be finalised in 2024 and come into force by 2026.

## **Sustainable Consumption of Goods / Right to Repair**

The Right To Repair law aims to make it easier and more cost-effective for consumers to repair a product, hence promoting eco-design and sustainable business models like second hand, mending or renting. It aims to ensure that more products are repaired within the legal guarantee, and that consumers have easier and cheaper options to repair products that are technically repairable when the legal guarantee has expired or when the goods are not functional anymore as a result of wear and tear.<sup>22</sup>

The proposal only covers goods under the ecodesign framework, which currently includes household washing machines, dishwashers, refrigerating appliances and vacuum cleaners. However, as textiles are top-of-list of ESPR-related regulation, mandatory repairability requirements are likely to be applied to them as well. The Right to Repair regulation has been adopted by the European Parliament and will be finalised by EU co-legislators in early 2024 before entering into force in 2026.

## **3.2. The Challenges**

Transitioning the fashion industry towards a circular economy requires a systemic change from all economic players, including designers, startups and

<sup>20</sup> European Green Deal: Putting an end to wasteful packaging, boosting reuse and recycling, European Commission

<sup>21</sup> Packaging waste: EU Rules on Packaging and Packaging Waste, European Commission

<sup>22</sup> Right to Repair: Commission Introduces New Consumer Rights for Easy and Attractive Repairs,, European Commission

SMEs. However, sustainable frontrunners operate in a well-established system defined by linear business models which makes it hard for them to establish and prevail with sustainable, let alone circular, alternatives. In this section, we will point out the business and regulatory challenges these players have to deal with in the current market environment.

### **Business challenges**

Several barriers are systemic in the sense that they are deeply rooted in our current, linear economic model. They include the lack of economic incentives and the significant support that is necessary for the uptake of sustainable business models, the missing internalisation of environmental costs in the price of products and services, the untapped potential of green public procurement, and the lack of common standards.

As identified in D1.3, a solid business case and marketing acumen are key to attract potential investors. However, when starting out with a creative idea or innovation, fashion designers and startup founders often do not have sufficient know-how in business management, circularity or marketing. Even digital natives find it challenging to compete against incumbents with well-established marketing operations serving linear consumption patterns.

Due to the complexity of circularity in a supply chain, it becomes harder for partners to communicate, collaborate and find experts in circular design, sustainability and with cross-sectoral skills. However, circular value chains need to be inclusive of partners both upstream and downstream, including consumers, civil society organisations, second-hand retailers, re-manufacturers, and recyclers, for example.

The need for information, contacts and capacity building provided by facilitators is the most apparent. This is related to the fact that many respondents regard trust as the underlying basis for them to accept and work together with partners in a supply chain. However, despite the vast amount of information available online, resources are scattered across multiple knowledge platforms that cut-across multiple industries and often are limited to a specific geographical region, market or language. Through our own mapping exercise alone, we identified more than one hundred different resources related to circular fashion.

Some of the main challenges smaller enterprises are facing were identified in a study at an earlier stage of the Fashion for Change project<sup>23</sup>, as summarised in the following table:

Score	Impact Level	Type	Challenge	Description
12	Systemic	Behavioural	Linear production and consumption patterns	Behavioural lock-in in linear make-take-waste business models and lifestyle.
12	Specific	Capacity	Lack of business management and marketing skills	Professional skills essential for young entrepreneurs to stand their ground in a highly competitive fashion market.
11	Systemic	Market	Conflict of interest among stakeholders in the value chain	Due to split incentives. Benefits of circularity do not accrue to those making the effort.
11	Systemic	Capacity	Lack of an integrated information platform	Useful information is scattered across multiple platforms by application, industry, market, region or language.
8	Systemic	Capacity	Lack of understanding of circularity concept	Lack of understanding of the circularity concept as "Circularity" is often confused with "Recyclability".
3	Systemic	Capacity	Lack of technical know-how	Due to the novelty of circular fashion models, processes and products.
3	Specific	Market	Lack of economically viable and market proven technologies	Despite its technical evolution and performance, recycling of complex fibre-based products is not profitable.
1	Specific	Market	Lack of recycling infrastructure	Patchy infrastructure prevents a sufficient supply of secondary feedstock and hence impacts the planning security and profitability of a business.

Table 1: Main challenges by fashion designers, startups and SMEs by type

<sup>23</sup> Fashion forChange, "Analysis of the Challenges, Needs and Existing Solutions" (D1.3). The "score" value indicates the significance of the identified challenge or barrier, with 1 being the lowest and 12 being the highest.



With every capacity building support programme, like Fashion for Change and its three sister projects running under the same COSME call, an additional set of toolkits, stakeholder mappings and knowledge databases is created and published on a different platform. By consequence, one of the main challenges for managers is to find the solution, reference or contact they might need to resolve an urgent issue to advance their business in an efficient and timely manner. As a result, startups miss out on opportunities to build capacity, find suppliers and partners for collaboration projects, and funding, and potentially expand into new markets.

### Regulatory challenges

While new EU policies under the CEAP aim to support companies with a sustainable business model<sup>24</sup>, they might add administrative and financial burden for them, in addition to EU regulation that already exist:

- 1. Compliance:** Keeping up and complying with new EU regulations mentioned in section 3.1 is a new task that all companies will need to consider in order to stay in business. In particular, the CS3D and the Green Claims Directive will impose liability on enterprises, respectively for considering the impact on human rights and the environment throughout their value chain.

Compliance requirements may also involve tracking and reporting on waste data and the way they handle and dispose of potentially hazardous chemicals or materials, always bearing in mind the entire life cycle of a product. When it comes to end-of-life criteria and packaging, it is essential for companies to understand how the ESPR and revised WFD will apply to their specific operations and supply chains. Similarly, the directive sets targets for the recycling and recovery of different materials, including such as textiles and clothing. At some stage, the Right to Repair directive might bring significant changes in warranty claims.

- 2. Sustainable product design:** All companies that deliver their products to the EU market need to comply with the ESPR and its minimum sustainability requirements for textile products as soon as the regulation is adopted. Meanwhile, the vast majority lacks experience with life cycle assessment, sustainable product development, proper management of natural resources, as well as tracking, measuring and managing the impacts of their business.

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<sup>24</sup> <https://www.business.com/articles/how-to-create-a-sustainable-business-model/>

- 3. Transparency:** The EU is working on regulations to increase transparency in the fashion industry, including requirements for disclosing information about the environmental and social impacts of products. Businesses may need to maintain records and provide data related to waste generation and disposal, for example. Companies must be able to navigate these restrictions to measure, show, and prove that their products are safe and legally compliant.

The Digital Product Passport (DPP) proposed under the ESPR, for example, will mandate companies to gather product and production specific data up the value chain. They may need to invest in systems to track and report this data. This typically requires data sourcing, certification and auditing through external providers. Similarly, substantiating green claims will require Life Cycle Assessments (LCAs) based on scientific data and certification. When the CS3D enters into force, large companies will require sound information about the supply chain of any products they procure from SMEs, startups and designers. The implementation of traceability and transparency protocols requires substantial investments in systems and technologies for data entry, product labelling, and for verification at all stages of the value chain. Traceability can be a costly activity and it could put enterprises “on an unequal footing depending upon their size, available resources and human capacity”<sup>25</sup>

- 4. Product Safety:** The Registration, Evaluation, Authorisation, and Restriction of Chemicals (REACH) and the General Product Safety Directive impose restrictions on the use of certain chemicals in textiles and fashion products. Startups must ensure their products adhere to these regulations. REACH stipulates that chemical substances that exceed one tonne per year per company must be registered with the European Chemicals Agency (ECHA). In this process, companies must identify the risks linked to the substances they handle and indicate how they manage them. This obligation applies to both substances and mixtures.<sup>26</sup>
- 5. Intellectual Property:** Companies and designers need to be vigilant about intellectual property rights, including trademarks, copyrights, and design rights. EU regulations on IP protection can affect the branding and design aspects of sustainable fashion businesses.

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<sup>25</sup> UNECE, Recommendation No. 46

<sup>26</sup> REACH Regulation: To Protect Human Health and the Environment Against the Harmful Effects of Chemical Substances (Overview), European Commission

- 6. VAT and Customs Duties:** Taxation and customs regulations can vary across EU member states. SMEs and startups engaging in international trade may face administrative burdens related to Value Added Tax (VAT) and customs duties when importing or exporting sustainable fashion products.
- 7. Labour and Employment Regulations:** Companies from the fashion industry must comply with labour and employment laws, such as those governing fair wages and working conditions. These regulations may affect the cost structure and operations of the business.
- 8. Environmental Regulations:** Companies must be aware of environmental regulations related to water usage, emissions, and waste disposal. Compliance with these regulations may entail additional costs and administrative work.
- 9. Data Protection (GDPR):** If a startup collects and processes customer data for marketing or e-commerce purposes, it must adhere to the EU General Data Protection Regulation (GDPR), which involves data protection and privacy compliance.

As innovative startups tend to challenge the conventional ways of conducting business, building trust through personal contact, close communication and transparency is paramount. Whilst some are in favour of business-to-business networks to drive collaboration between established companies and startups in the format of public-private partnerships for example, others see a solution in competence centres that connect and give access to online networks. While established companies get an opportunity to learn about innovative products and services and how to embrace them, startups get a chance of finding a supplier or partners for a joint venture and funding.

As outlined in this section, many stakeholders believe online tools are usually hard to find, comprehend or assess, as they are often designed for a specific industry, region, market, or language. Respondents express a need for better guidance and indicators that would lead circular fashion designers, startups and SMEs to existing online tools that are most relevant and effective to them without relying on personal assistance by an external consultant, for example.

Consulting with experts in waste management and sustainability can help the right ways to react to the regulations, especially when it comes to the Extended Producer Responsibility (EPR). This is a key concept in the Textiles Strategy and the WFD, which shifts the responsibility for managing waste from consumers to the producers. This creates an entirely new task - and possibly even a unit - for the businesses producing garments.

Depending on the country of operation, sustainable fashion startups may have to take responsibility for the proper disposal and recycling of their products at the end of their life cycle.

### 3.3. The Solutions

To help startups tackle the challenges listed in the previous section, we see the need for policies that create a level playing field for sustainable fashion products and services in a highly competitive - and still rather linear - market, along with a more structured approach by the European Commission when it comes to capacity building. In this section, we highlight the regulatory and structural measures we concluded would be most effective to help sustainable fashion designers, start-ups and SMEs overcome these challenges.

#### **Economic incentives to create a level playing field**

Sustainable companies need an EU policy framework that establishes a level playing field, where transparency, measurability and comparability enable the consumer, investors and public authorities to distinguish sustainable products and services from unsustainable ones.

Especially for smaller companies this means a disproportionately higher administrative and financial burden, as they need to adapt their work processes and information technologies. For this reason, transparency and reporting-related policies need to be as efficient as possible by leveraging common standards and digitalisation to avoid the need of manually entering the same data multiple times for different reporting tasks, for example.

To steer away from a linear production and consumption model, a responsible deployment of resources needs to be promoted through policies that take into account a product's environmental and social impacts throughout its lifecycle(s).

For this reason, reducing labour taxes and increasing taxes on pollution and the use of natural resources are instrumental. Financial incentives would benefit more sustainable companies at the bottom line, making them more competitive and profitable. In the longer term, a sustainable business case based on competitive advantages and planning security will also facilitate access to capital necessary for scaling up the business.

We therefore recommend the following policy instruments and financial incentives to be implemented to support sustainable startups and SMEs in the European Union:

- Harmonised implementation of Extended Producer Responsibility (EPR) schemes with eco-modulation of the fee to incentivise sustainable design, as announced in the Textiles Strategy and proposed in the draft PPWR (see below)
- Abolition of lower tax rates for petrochemical products (formerly: mineral oil tax)
- Implementation of a tax on textiles made from virgin plastics, or on virgin plastics
- Lower VAT rates or exemptions for products made from secondary materials
- Pricing of CO<sub>2</sub> emissions from textiles production according to the price set by the European Emission Trading System (ETS) and the Carbon Border Adjustment Mechanism (CBAM) for imported textile goods
- Mandatory Green Public Procurement targets

In view of the revision of the EU Waste Framework Directive (WFD) and the Packaging and Packaging Waste Regulation (PPWR), the most effective EU regulatory incentive at the mid-term would be the introduction of a harmonised eco-modulated EPR scheme for textiles. EPR is a waste management scheme that holds producers responsible for the end-of-life management of their products, according to the EU waste hierarchy that prioritises waste prevention, reuse/repair, and recycling. Producers often work collectively within Producer Responsibility Organisations (PROs) to fulfil their waste management obligations. EPR schemes ensure proper waste collection, encourage circular eco-design, and help achieve material recovery and circular targets.

As the cornerstone of the EU Strategy for Sustainable and Circular Textiles, an eco-modulated EPR scheme across the EU would have the potential to deliver transformative improvements in the collection and management of used and waste textiles.<sup>27</sup> Eco-modulation is a financial tool within EPR systems that incentivizes sustainable material use by penalising or rewarding producers based on their environmental performance. Fee modulation is important as it encourages eco-design and sustainability.

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<sup>27</sup> Eunomia: Further Considerations to Textiles EPR

Advanced modulated fee criteria could include durability, uptake of recycled content, ease of maintenance, ease of sharing, reparability, reuse, recyclability, reduced presence of hazardous substances, reduced impact on microplastic pollution, and consumer awareness measures. It is vital that EPR schemes have the correct incentives to encourage recycling of clothes back into clothes and not false circularity, for example by using polyester from recycled plastic bottles.<sup>28</sup>

### **Capacity building with a structured approach**

For most fashion designers and startups, scaling up circular business models in a traditionally linear economy remains an uphill battle. EU regulation designed to provide them a level playing field, like harmonised EPR schemes, the introduction of a Digital Product Passport or eco-design requirements under the ESPR will stimulate the uptake of such models but postulate specific know-how, access to relevant information and financial resources. For this reason, companies need free and easy access to resources that can support them in sustainability-related matters, as well as drafting sustainability strategies with circularity at their core.

One of the main insights from the “Analysis” report (D1.3) is that capacity building is in high demand among young fashion designers and startups to get their sustainable business off the ground. A majority of respondents therefore welcome the idea of competence centres that would combine a physical location with a digital information platform that would give access to an extended network of international outreach. While local communities and regional networks offer a fertile soil for any type or size of business, scale-ups and established companies are equally keen on international collaboration. Even though SMEs typically focus on domestic markets, access to global markets would enable them to scale up and grow, especially regarding green tech products and services where Europe is a leader. Any EU-wide or global approach should be coordinated with local, regional, and national associations and other stakeholders under the aspect of circularity.<sup>29</sup>

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<sup>28</sup> Changing Markets Foundation: New Look For the Fashion Industry

<sup>29</sup> One expert pointed out in an interview that public regional waste and recycling agencies like <https://www.awv.steiermark.at/> do not have the capacity and know-how to run this type of hybrid circular fashion communities and would be overstrained with this task.

As the fashion industry is relationship-driven, there is consensus that human contact remains an important social component.<sup>30</sup> What respondents are missing are local competence centres that would allow personal exchange with experts and peers to obtain required information, contacts, know-how and professional services. We therefore second the European Commission's initiative to leverage the infrastructure of existing competence centres such as the Enterprise Europe Network (E.E.N.) and develop them into a "New European Circular Business Hub", as proposed in the EU Sustainable Product Initiative.

Building on existing structures, the Hub would bring different stakeholders together in a physical location to "support the uptake of circular business models, channel information and services including awareness raising, cooperation, training and exchanges of best practices" and "support the exchange of experience between economic actors in integrating circularity in product design and manufacturing".<sup>31</sup>

Circular hubs usually are public-private partnerships managed by a non-for-profit organisation, foundation, association or public authority. They often vary in size, format and scope, depending on regional conditions, resources and the engagement level of their member organisations. The National Institute for the Circular Economy (INEC) mapped a total number of 24 cross-sectoral circular competence centres across Europe, 22 of them in the EU. Organisations supporting enterprises on circularity are available in most EU member states.<sup>32</sup> By helping startups overcome barriers, circularity hubs produce valuable references in support of the circular business case and hence serve as catalysts of the circular transition beyond their local communities.

When it comes to EU-funded support programmes like the Fashion for Change, feedback from startups suggests that personal contacts and one-on-one talks with experts and mentors are most appreciated and regarded as highly effective. The same goes for networking and exchanging with fellow entrepreneurs from the same industry to learn from. Overall, the mentoring programme helped enhance startups' pitching, networking and fundraising skills, with room for further improvement. Some of them had up to 25 interactions with potential investors throughout the programme. Although no direct investments had been secured, the startups found the advice from these experts and to better understand their expectations highly valuable.

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<sup>30</sup> An example for this type of community is the FUTURE FASHION FORWARD network in Germany: <https://future.fashion>

<sup>31</sup> Making Sustainable Products the Norm (Communication), European Commission.

<sup>32</sup> Circular Economy Update: Ecopreneur.eu

The fact that the access to these contacts is confined to the duration of the programme and is at risk to decrease eventually is generally regretted.<sup>33</sup> To overcome this issue, a circularity network would allow startups to stay connected and keep interacting with each other beyond programmes and geographical borders.

Designed as a one-stop-shop, its core functions include networking and matching, training and education, promotion of best practice and innovation, joint research and advocacy, as well as facilitating access to practical support tools, business consulting and funding, and accelerator programmes.

A European Circularity Hub network could organise specific activities aimed at the fashion sector, such as separate regional tracks on circular fashion design, in addition to general business support. Startups should be granted specific support services by external experts like consultants, mentors or trainers. These capacity building services should be sponsored by European Commission in the form of free vouchers valid across the European Union as part of a cascade funding scheme<sup>34</sup> under the HORIZON<sup>35</sup> programme, for example.

In addition to the personal exchange facilitated through the network, AI-powered online tools like ChatGPT help companies find useful resources like the ones identified in our research. One of the useful solution maps established by Fashion for Change and the European Commission, for example, are currently kept in different locations and are therefore not easy to find. The same goes for accelerator programmes published on specific portals like the Texpertise Business Network, for example. Instead of gathering these useful resources on yet another database, online tool or knowledge hub, modern AI technology can deliver comprehensive results in the language of the user, including relevant support programmes, tools, and other useful resources with links to the original source.

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<sup>33</sup> The Second Report on the Fashion for Change Growth Programme Progress (D3.4), FfC

<sup>34</sup> In line with the European Skills Agenda and EU Vocational Education and Training initiatives.

<sup>35</sup> EU funding through the NextGeneration EU recovery fund, HORIZON Europe and the European Cohesion Policy 2021-2027 fund and COSME programme.



## 4. Conclusions

As emphasised in the D1.3 report, “when it comes to supporting young entrepreneurs, designers and SMEs in overcoming the typical barriers when starting-up or scaling up a sustainable business, there is no one-size-fits-all solution”<sup>36</sup>. However, to master these challenges, [access to highly relevant contacts and information combined with personal guidance and capacity building measures seem to be paramount](#) for circular businesses to work.

Personal mentoring proved to be essential for facilitating contact with potential investors, which in our case resulted in 40 meetings. Investment Readiness Programmes, for example, that facilitated a personal exchange between professionals, helped startups get in touch with potential investors. In our case, contacts with 12 venture capital and angel investors were established during the programme.

What stands out in terms of capacity building is the need for this group to [interact with peers, experts and other relevant partners through local, regional and international communities in person as well as online](#). Developing a “network of peers” seems to be essential to shift the industry towards circularity. This network would interconnect local competence centres to commission personal support, facilitate contacts and provide local funding. [This recommendation is in line with a recent call from the European Parliament on the European Commission and EU Member States “to support the establishment of circularity hubs in all European regions and local communities”](#) in the spirit of the proposed “New European Bauhaus”.<sup>37</sup>

As most of the barriers sustainable entrepreneurs are facing are systemic, this approach must be both cross-sectoral, regional and sectoral, integrated and supported by effective policies to make it work in the long term. [At the short-term, economic incentives are required for circular businesses](#), first and foremost in the form of harmonised Extended Producer Responsibility (EPR) schemes with eco-modulated fees, reduced VAT rates and Green Public Procurement (GPP) for circular products and services, and carbon tax or levy to create a level playing field for circular fashion providers.

Regional Circularity Hubs should provide access to local consultants and service providers to help sustainable fashion designers, startups and SMEs getting to grips with compliance issues, provide training and other capacity building support, and facilitate networking, for example.

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<sup>36</sup> Supporting Sustainable Fashion Designers, Start-Ups and SMEs in the Circular Economy. Ecopreneur.

<sup>37</sup> New Circular Economy Action Plan (Initiative 2020/2077), European Parliament

To enable SMEs and startups to draw on expert services provided through third-parties easily and without administrative burden, [Circularity Hubs should sponsor these professional services in the form of complementary financial vouchers](#) as part of a cascade funding scheme managed by the European Commission.

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