Executive summary

Over the last decade, the clothing sector in Europe has been at the forefront of efforts to raise the social and environmental standards of international trade. Whether it is child labour or toxic dyes, clothing retailers are under pressure to demonstrate responsible practice along their supply chains. This ethical imperative coincides with and is partly driven by the accelerating globalisation of sourcing, which is opening up new opportunities for textile and garment exporters in the developing world. The challenge now facing the 'rag trade' is whether its largely defensive efforts to minimise social and environmental risk can be transformed into a coordinated strategy for the sustainable development of the supply chain: improving performance, sharing benefits and broadening accountability.

Sustaining the rag trade attempts to answer this by looking in detail at the UK clothing retail sector. The report forms part of IIED's *Stimulating Sustainable Trade* project, whose aim is to provide practical guidance on how to expand exports of sustainable goods and services from the developing world to the European Union. It emerges out of a need expressed by IIED's partners in the South to better understand the demand-side factors that are driving social and environmental performance into the heart of trading realities.

A sector in transformation

Powerful forces are transforming clothing retail in the UK (Chapter 2). Fashion cycles are shortening, new entrants are shaking up established players at both the premium and value ends of the market and e-commerce promises to deliver further shocks.

But one of the overarching trends is the way in which supply chain management is becoming central to retail success. To bring down costs and improve quality, leading retailers are rationalising their supply base: C&A has halved its suppliers in recent years, for example. Cost pressures have also driven up imports threefold since the mid-1980s – leading to mounting job-losses in the domestic textile sector. Scheduled liberalisation of textile trade through the removal of the Multi-Fibre Arrangement by 2005 will further increase imports into the UK and Europe. The result is a 'buyers' market' where retailers set the terms of trade for price, quality and delivery within the supply chain. But the mature clothing market in the UK means mounting competition and ever-increasing attention to enhancing brand value as a way of attracting customers. And it is this concern for branding that is providing the opening for increasing integration of social and environmental factors.

The sustainability challenge

Traditionally, the social and environmental side-effects of clothing have been dealt with reactively and in parallel (Chapter 3). But there is now increasing recognition of the need to take an integrated life cycle approach that identifies the critical issues from fibre production through cloth making to garment assembly, use and disposal, and aims to incorporate social and environmental factors into mainstream decision-making. Looking across the breadth of the sustainable development agenda for clothing, four priorities emerge:

- Eliminating environmental hazards, such as pesticide use in cotton cultivation and toxic chemicals in textile manufacture.
- Improving water and energy efficiencies, particularly during textile processing and clothes' washing.
- Cutting pollution and waste, especially from dyeing and new concerns over 'genetic pollution' from genetically modified cotton.
- Establishing social justice, such as raising standards for workers, particularly women and children.

The direct social and environmental impacts of clothing retail are relatively minor. But three factors are pressing retailers to extend responsibility along the supply chain, including:

- **Government policy:** Regulation remains a powerful driver, particularly to control toxic chemicals and reduce packaging waste. Following the failure of the EU eco-label scheme, the UK government is rethinking its approach to product policy, and has launched an Ethical Trading Initiative to raise labour standards.

- **Public pressure:** Campaigns from environment and development organisations have proved a potent force for change, particularly to tackle 'sweatshop' conditions in garment production. Campaigns against GM cotton could arise in the future.

- **Market demand:** Consumer preferences for 'green' or 'ethical' clothing have been the weakest pressure, due to low awareness, lack of point of sale information, as well as perceptions of poor design and high prices for 'alternative' ranges. This contrasts with other countries, such as Germany, where company leadership has built up a green market for clothing.

The business response

The rag trade is fiercely individualistic and the UK's leading retailers are responding to these pressures in a range of different ways (Chapter 4). Market leader, Marks and Spencer, was the first to introduce environmental policies in the 1990s, and is currently exploring a common environmental standard with its major suppliers. M&S has recently adopted a set of Global Sourcing Principles and joined the ETI to tackle the social agenda. Faced with a downturn in consumer sales, the challenge for M&S will be to upgrade the sustainability dimension of its brand and communicate directly with customers as part of its recovery strategy. For Next, social issues have been to the fore and the company has worked with Oxfam to develop an internal Code of Practice; it has not yet adopted a formal environmental policy. The privately-owned Dutch-based C&A has been the focus of campaigning since the early 1990s. It now has a Code of Conduct for supply, and an arms-length agency, SOCAM, to monitor implementation. Environmentally, it has taken a leadership role, installing ISO14001 in its operations and adopting the Oeko-Tex 100 standard for its clothing. Part of the Storehouse group, Bhs has both an Environmental and an Ethical Sourcing Code of Practice, while Littlewoods also has an ethical code and is a member of the ETI.

For most clothing retailers, action on social and environmental responsibility is relatively new and in a state of flux. In some cases, there is clear commitment to change from chief executives, and a new willingness to engage in dialogue. However, the driving forces for change are largely defensive, with few examples of active attempts to win market position by bolstering social and environmental reputation. Here, other European companies such as Otto Versand in Germany show how environmental factors can become part of corporate strategy.

Recommendations for the future

The rag trade has seen a flurry of activity in recent years as companies act to install basic systems to give assurance on social and environmental performance in the supply chain. But these measures do not yet add up to a clear strategy for sustainable development – and the sector risks falling behind government strategy, public expectations and business best practice. Six priorities stand out for action:

1. Vision: The rag trade needs to develop a strategic vision of its contribution to sustainable development, both nationally and globally along the supply chain.

2. Entrepreneurial leadership: A virtuous cycle of innovation is required that rewards those who 'stick their heads above the parapet'.

3. Awareness raising: New tools are needed to raise consumer awareness of the social and environmental issues that lie 'behind the label'.

4. Collective action: A common platform is required for clothing retailers to develop and project a strategy for sustainable development.

5. Transparency: A culture of transparency needs to be reinforced through the provision of clear, objective information on the social and environmental impacts of clothing products.

6. Supply chain partnerships: More could be done to build real partnerships with suppliers in developing countries, particularly to ensure that the distribution of the burden of change is fair.