2022 PREDICTIONS REPORT

THIS IS NOT A DRILL

Positive Luxury

CONTENTS

ABOUT POSITIVE LUXURY

Since 2011 Positive Luxury has been helping organisations adapt to the new climate economy. We developed ESG+, a proprietary sustainability assessment for the luxury industry with a unique focus on innovation. Organisations that we certify receive the Butterfly Mark, a globally respected trust mark that is independent evidence of their positive impact on nature and society.

Want to find out more? Contact us at **hello@positiveluxury.com**

FOREWORD

“Positive Luxury’s 2022 Predictions Report comes at a pivotal time, at the onset of a year marked by both great hope and great uncertainty for the decade ahead. In 2022 we are facing – in some cases – the last real chance to make the changes we so desperately need in order to preserve the planet for future generations. In some cases, however, 2022 marks the year that the fight to preserve the world as we know reaches a critical point. We have lost some battles already, as our special report on wines describes.

Of course, 2020 and 2021 saw the ebbs and flows of a global pandemic that cost millions of lives and untold economic damage, introducing entirely new challenges to an already difficult time. COP26 did have some promising proposals from governments around the world, however increasingly the path to a future that is kinder to people and planet is being laid out by businesses, not politicians.

Research released during the conference shows that the plans countries have laid out so far for reducing emissions (known as Nationally Determined Contributions or NDCs) will still lead to a 2.4 degrees Celsius rise in temperature by the end of the century. Crossing that critical 2C threshold is enough to put over one billion people under extreme heat stress; bleach over 99% of coral reefs; double the extinction of plant species and intensify the melting of sea ice in summer by 10 times, raising sea levels by up to six metres in vulnerable parts of the world. The Maldives Environment Minister, Aminath Shauna, stated it baldly in the final plenary: “The difference between 1.5 C and 2C, for us, really is a death sentence.” We need to act faster – together.

In 2022 we are facing – in some cases – the last real chance to make the changes we so desperately need in order to preserve the planet for future generations.

In November 2022, COP27 will take place in Egypt, which is situated in one of the most vulnerable regions in the world, particularly impacted by water and food insecurity. Governments will return to the table in a country whose citizens face an existential threat to their survival, and must answer one existential question… have we done enough? COPs aren’t just about the drama of the negotiators inside the halls. The answer to that question will only be yes if people around the world participate in making it so. As they say – ‘to be continued’…

This year's Positive Luxury Predictions Report engages with all of this and more, lighting a path for companies trying to navigate this shifting landscape. In the following pages, you'll see a direct challenge to the myths surrounding a generational divide on sentiments towards sustainability; an urgent call for transparency as a tangible action to take now; insights from those in the know on global legislation and what your business should pay attention to; a vision of a resilient luxury that uses nature as an ally not as a no-limit bank account; and inspiring new business models that look to give luxury a make-over.

> THIS WILL STAVE OFF THE WORST IMPACTS OF CLIMATE CHANGE, IMPROVE QUALITY OF LIFE AND REWILD AND IMPROVE OUR BIOSPHERE – PLANTS, OCEANS AND ANIMALS – THAT WE ALL DEPEND ON.

But before all that, I want to be clear about where I stand on all of this. Swift action must be taken with people, innovation and our planet at the heart of it. This will stave off the worst impacts of climate change, improve quality life of and rewild and improve our biosphere – plants, oceans and animals – that we all depend on.

COP26 showed us that businesses can be a positive force. We can make a tangible difference not only to accelerate the transition to a new climate economy but to build capacity in the developing world in order to be able to have a more just world. Today's world belongs to those who dare to dream big and change the status quo. I very much hope that the luxury industry can succeed in dreaming together of a better future for all.

Diana Verde Nieto,
Co-CEO Positive Luxury

CHAPTER ONE:

THE RISE OF RESILIENCE

FOR YEARS, THE WARNINGS of scientists, experts and companies like Positive Luxury have been framed as discussing a future that may never happen. For lovers of fine French wine, however, the effects of climate change are in the process of destroying one of the wine connoisseurs best loved grapes here and now.

Pinot Noir is from Burgundy, where it is the only grape in most Burgundy reds and has been cultivated since the 12th century. As Miles says in Alexander Payne's film about the vineyards of California, the Pinot Noir grape is delicate to grow but rewarding to drink. And yet climate change has caused leading industry figures to forecast the Burgundy terroir won't be able to support Pinot Noir by 2040.

> "Pinot Noir needs constant care and attention. You know? And in fact, it can only grow in these really specific, little, tucked-away corners of the world. And — and only the most patient and nurturing of growers can do it, really. Only somebody who really takes the time to understand Pinot's potential can then coax it into its fullest expression. Then, I mean, oh, its flavours, they're just the most haunting and brilliant and thrilling and subtle and ancient on the planet."
>
> *Miles (Paul Giametti), Sideways.*

Climate change has had a dramatic effect on Burgundy's vines and wines. As temperatures rise, the best vineyard sites become too warm. The region's 2020 harvest was one of the earliest on record, continuing the trend of spring frost, sunburn and drought that mean Burgundy wines, once defined by their elegance, subtlety and gracefulness, are getting riper by the year. And wine is no isolated case. In 2015, Kering published a study of six threatened raw materials – silk, extra fine cotton, Vicuna wool, cashmere, sheep and lamb leather. Whilst the Textile Exchange report for 2021 celebrated the growth in ecologically sound alternatives, it warned that so-called 'preferred fibres' still only account for 20% of the market. There is work to be done.

As this report shows, acting now is no longer about preserving the luxuries we love. Acting now is about finding alternatives – alternative ways of doing business, alternative means of examining and securing sustainable supply chains and, in many cases, alternative materials or ingredients that best approximate those that are already disappearing. We must now create a new version of the world we know, with new paradigms.

This climate resilience could mean, quite simply "an end to the luxury lifestyles of the super-rich in order to meet global climate change targets," according to a report published in October by scientists from the Universities of Oxford, Sussex and Lausanne. Luxury yachts, private jets and other carbon-intensive goods used by the "polluter elite" should be banned or heavily taxed in order to meet global

climate change targets, the scientists argue, noting that the richest 10% of the world's population was responsible for 50% of the man-made greenhouse gases added to the atmosphere between 1990 and 2015. The richest 1%, meanwhile, accounted for 15% of emissions.

The luxury sector needs to take this seriously in 2022 – from private aviation to beauty, and from fashion to the travel and hospitality sectors. Companies that persist in treating climate change solely as a corporate social responsibility issue, and keep it siloed in their organisation – rather than a material risk for the business future and embedding it throughout each function of the business – risk repeating classic stories of market failure. The effects of climate on companies' operations should be seen as an existential risk: measurable and therefore certain. 2022 is no longer the beginning of the decade that prepares for climate adaptation – it is the year to take tangible action to protect, replenish and rewild what we have left.

RESILIENCE VS. ADAPTATION

John Holdren, Barack Obama's scientific adviser, coined the idea that there are three choices when it comes to climate change: mitigation, adaptation, or suffering. In fact, adaptation is essential under all options – if the entire world stopped emitting carbon tomorrow, there are still three decades of intensifying storms and severe weather locked-in.

If luxury consumers are to continue to enjoy their lifestyles, luxury brands will need to adapt to the new normal and do their bit, not just decreasing their negative impact but creating positive ones. This

> THE EFFECTS OF CLIMATE ON COMPANIES' OPERATIONS SHOULD BE SEEN AS AN EXISTENTIAL RISK: MEASURABLE AND THEREFORE CERTAIN

is not only necessary to protect their businesses, which in most cases rely on the natural world to produce raw materials and ingredients. It's also about living up to the promise of luxury – if history teaches us anything it's that pleasure, comfort, beauty, peace, joy and freedom built on broken backs and burning land can only ever be temporary.

In the luxury sector, fashion is leading the way in building resilience. In 2021, for instance, Chanel bought up an extra 10 hectares (100,000 square metres) of land to secure its supplies of jasmine, the key ingredient for Chanel's 100-year-old No.5 perfume. This purchase added to the 20 hectares the company already owns in partnership with the local Mul family near the town of Grasse – the centre of French fragrance since the 1700s. The same jasmine grown in Egypt or Morocco will not have the same scent because of the local terroir, but jasmine growers have started lighting candles between the vines during cold weather. Chanel's investment will ensure the small-scale fragrance industry has the resources to adapt.

In the rest of this chapter we take a look at some key areas in luxury and examine the changes already underway – whilst highlighting that, in some cases, this still means things will never be quite the same again. For luxury consumers hoping to preserve their lifestyle, the hard truth is that moment has already passed. The world has changed already. A new, more resilient normal is here, whether we like it or not.

IN DEPTH: FINE WINES

The way the world is changing is already impacting one of luxury's finest traditions – fine wines. Warmer places like France, Italy and Spain have seen ripening grapes at a higher temperature mean more sugar and less acid in the berry, making high-alcohol, honey-like wines. In April producers in Italy and France had to light thousands of bucket-sized candles to warm the air and ward off a killer frost that threatened to destroy buds emerging with the first warm spells of spring – although the frost wiped out 90% of the crop in some regions, resulting in an estimated €2bn loss. The plants budded early thanks to record-breaking temperatures in March, making chilly nights in early April particularly damaging.

> THE RESILIANT APPROACH INVOLVES SEEING NATURE AS AN ALLY NOT A SERVANT

João L. Barroso, sustainability programme coordinator at Portugal's Comissao Vitivinicola Regional Alentejana (CVRA) warns that the entire Mediterranean basin, which covers much of the wine market globally, will produce less wine and of lower quality in 40 years. "We could lose 50-85% of yield in this area," he says. "A pretty vineyard is not a healthy one and 20 euros of investment is required for each square meter of vineyard land to prepare for resilience. There is no chance of relocating the wine industry… you can't move the land."

Old world wines will suffer as temperatures increase, but he believes the resilient approach involves seeing nature as an ally not a servant. The CVRA is calling for investment in regenerative agriculture, adding buffer zones and wildlife corridors, reducing water use, packaging and the weight of the bottles whilst increasing recycling, using renewable energy and possibly – "although not in the high end" – using plant based plastic bottles. "What's at stake is pretty much the survival of the industry," he says simply.

Over in Sicily, Donnafugata winery led the way in founding the Consorzio di Tutela Vini Doc Sicilia (Sicilia DOC) in 2012. This promotes, protects and develops the production of Sicilian quality wine focusing on improving the established quality standards, including the reduction of maximum yields in vineyards and conservation of the island's historic areas.

"Sicily so far has been spared from particularly strong impacts as maximum temperatures are lower than in the south of Europe," explains Antonio Rallo, who runs Donnafugata with his brother Jose. "Despite this, we are adopting different countermeasures in both vineyard and cellar. We are rediscovering old varieties of grape for their resistance and viticultural potential, grafting new more resistant rootstocks, cutting out herbicides and chemical fertilizers, reducing the use of agro-pharmaceuticals to a minimum and using green manuring, organic fertilisation, emergency irrigation and thinning, thus reducing the use of natural resources such as soil, water, air and power."

Donnafugata is using electricity from photovoltaic systems, adopting lighter glass bottles to reduce emissions from glass production and bottle transport and using Select BIO caps with zero CO2 emissions, made with materials derived from sugar cane and 100% recyclable.

Pioneering sustainable winemaking in the South of France, Nicole and Xavier Rolet at Chêne Blue focus on soil ecosystem flora health, moving towards less interventionist practices. The company has a flock of sheep over winter in the vineyards to provide weed-control as well as natural fertiliser, and avoids the use of synthetic chemicals and fertilisers in favour of the sheep's supplies as well as compost on the vines and in the vegetable garden.

As global warming alters Europe's climate, Germany, home to Riesling white wines, has become more favourable to the heat-loving grapes used to make reds like pinot noir whilst Kent and Sussex in the UK are producing sparkling wines. In these cases, resilience simply is not enough – adaptation is being forced on luxury brands.

LVMH has looked further afield, opening vineyards in Ao Yun—the name means "flying above the clouds" in Mandarin—which rest on rock terraces 8,500 feet up in the Himalayas, in a remote part of China near where the Yangtze, Mekong and Salween rivers meet. With China's "consuming class" now numbering 1.2 billion, the world is entering what consultancy McKinsey calls the "age of Asia."

In 2010 LVMH hired Australian winemaker Tony Jordan to create a domestic luxury product that would appeal to Chinese consumers. Jordan developed relationships with local village heads, ensuring workers would be well paid, and securing supplies of yak droppings to use as natural fertiliser on the vineyards.

Global recognition has come quickly, with prestigious wine journals taking note of the new vintages. Profit, however, may take up to 25 years according to the company. LVMH can afford to wait. And in the meantime, LVMH's high-end Chinese wine competing with the finest reds in the world has a halo effect when it comes to selling Dom Pérignon Champagne, Christian Dior dresses, Givenchy perfume, Bulgari watches, Tiffany diamonds and dozens of other LVMH products. LVMH has also drastically reduced the need to ship French wines to China, reducing carbon emissions and the length of supply chains.

According to McKinsey's *Asia's Future is Now* report, by 2040 Asia will account for 40% of the world's consumption. A key part of Asia's economic advancement, the report says, will be the development of "more sophisticated products" that will be sold locally instead of to the West. Expect the smarter luxury producers to take note.

Just like Donnafugata's pioneering winemaking, Chêne Bleu has developed a maverick approach to viticulture in the South of France – combining cutting edge organic, biodynamic and sustainable principles. Nicole and Xavier Rolet focus on the importance of combining soil ecosystem flora health to manage a high

IT IS REMARKABLE TO SEE THE VARIETY OF INSECTS, BIRDS AND ANIMALS THAT HAVE RETURNED SINCE WE ELIMINATED CHEMICALS'

NICOLE ROLET, CEO CHÊNE BLUE

yield vineyard. “We are constantly moving towards less interventionist practices, more in tune with the rhythms of nature. We avoid the use of synthetic chemicals and fertilizers, favouring natural ones such as our own compost on the vines and in the vegetable garden. A flock of sheep roam around free over winter in the vineyards to provide weed-control as well as natural fertilizer. It is remarkable to see the variety of insects, birds and animals that have returned since we eliminated chemicals” says Nicole Rolet, CEO of Chêne Blue.

Today, the wine and spirit industry is regarded as a high-risk sector for lack of sustainable operations and control throughout the supply chain. The alcoholic beverage industry scored an average of 4.8 out of 10 in the Drinks Industry Sustainability Index – Trends Report 2020, indicating that while sustainability is being more integrated into the industry, the work to clean up the industry is not keeping pace.

The industry has grown from small, localised productions to a global, multi-million dollar industry. The rapid and global growth of the alcoholic beverage market has led to a loss of production control.

Another area of vast environmental and social impact lies in the agricultural stage of wine and spirit production. Agricultural work is often isolated and inconsistent due to changing harvest seasons and remote locations. This has resulted in seasonal workers that suffer from no social protection and irregular income – many of them migrants, elderly, women and children.

Poor working conditions in the agricultural stage have been linked to the wine and spirit industry on numerous occassions. Fairfood International reports explored supply chains of large enterprises in the rum industry and found that sugar was being sourced from local producers in Cuba, Nicaragua and Guatemala who were working in dangerous conditions. Due to “working long days in warm conditions with lack of access to drinking water, breaks and shade,” workers contracted devastating chronic kidney disease of non-traditional causes (CKDnT). NGOs are now calling on these rum companies to take responsibility and investigate the workers’ conditions across their whole supply chain.

In the wine industry a common problem is employers refusing to give workers permanent employment, leaving them without a secure income or social protection. Long-time workers were being replaced with temporary workers in order to keep costs low for employers.

> THE WINE AND SPIRIT INDUSTRY IS REGARDED AS A HIGH-RISK SECTOR FOR LACK OF SUSTAINABLE OPERATIONS AND CONTROL THROUGHOUT THE SUPPLY CHAIN

Just like in the food and fashion industries, human rights crimes in agriculture don’t only occur in traditional risk-regions and territories. A report released in 2018 by the Italian trade union for farmers, Flai Cgil, exposed similar crimes in Italian agriculture. The report found that over 400,000 agricultural workers in Italy – home to some of the oldest and biggest wine-producing regions in the world – risk being illegally employed and work in extremely vulnerable conditions. ‘Agromafia’ – as these criminal structures have become known – are mafia-like organisations where most of the victims are migrant workers.

Improving labour conditions while minimizing the climate footprint depends on a functional collaboration in the wine and spirits supply chain. Positive impact lies in taking responsibility for every step across the value chain. From agricultural managers making sure everything is done responsibly on the fields, to the producers creating the products, distributors setting demands on suppliers, and customers making conscious choices. Every action contributes to creating a better future together.

IN DEPTH: TRAVEL

"Going abroad is still more complicated than pre-pandemic and it doesn't look good from an environmental perspective," according to Globetrender editor Jenny Southan. "For the most part the 'fly less, stay longer' attitude will endure."

A typical domestic flight emits 255 grams of CO_2 per passenger. Both short and long-haul flights emit around 150 grams, an electric vehicle emits around 50 grams whilst the Eurostar emits a mere 6 grams. That's why the future of luxury travel is rail, according to designer Thierry Gaugain, whose concept G Train luxury locomotive has 14 glass-enclosed cars with guest rooms, a gym, spa, garden, dining car, and grand reception hall – with space for art exhibitions, live music, and movie screenings.

"There is nothing more sustainable than trains when it comes to traveling objects," he told CNN Traveller. "The plane is way behind, and other means are very energy-consuming." He's already been in discussions with British engineering firm Eckersley O'Callaghan, Swiss train builder Stadler, and French glass manufacturer Saint-Gobain.

Although the aviation industry is working hard on its path to net zero, the timelines are considerably longer – and the investment required is significant. October 2021 saw the airline industry pledge to reach net zero flying by 2050, and a green hydrogen ecosystem will need to take shape to ensure its availability to fuel aviation's future needs.

Today, the road to net zero for many industries runs through green hydrogen. Indeed, this type of hydrogen – when entirely produced from renewable energy – is emerging as the most suitable for a fully sustainable energy transition for hard-to-abate sectors. As governments worldwide set their sights on more ambitious climate-neutrality targets, green hydrogen – derived from water electrolysis in particular – is expected to play a prominent role in the future energy mix. But as multiple industries increasingly earmark green hydrogen to help achieve their decarbonisation ambitions, one question remains top of mind: will there be enough green hydrogen for all?

Currently, green hydrogen accounts for less than 1% of the total hydrogen produced. However, this is expected to change. The cost of renewable energies is falling at an unprecedented rate. And investment in electrolysers – the "clean" technology used to separate hydrogen and oxygen atoms in water – is booming worldwide. As a result, green hydrogen production capacity could achieve a 50-fold increase in the next six years according to some estimates. This means green hydrogen could be on track to supply up to 25% of the world's energy needs by 2050.

Comparing rail with road and air transport makes it possible to demonstrate that the train is much more sustainable, whether in terms of CO_2 emissions, energy consumption, use of space or noise levels. But rail transport's environmental footprint can be reduced still further. To do so, we need to improve energy efficiency (efficiency of traction systems, improved electrical braking, LED lighting, optimised ventilation systems), reduce atmospheric emissions, and use clean, recyclable and natural materials.

German rail company Deutsche Bahn and the main national train operators in France, Switzerland and Austria are re-establishing night train routes from Vienna to Paris, via Munich, and Zurich to Amsterdam, via Cologne starting December 2021. Further international connections from Vienna and Berlin to Brussels and Paris will be created in 2023, and a Zurich to Barcelona sleeper will begin rolling in 2024.

According to David Trunkfield, Hospitality and Leisure Leader at PwC UK, consumers are "putting the onus on travel businesses to do more", with 52% expecting travel companies to be more sustainable. Whilst Kasia Morgan, Chief Sustainability Officer at Exodus points out that of the 17 social and environmental impact areas in the UN sustainable development goals, travel touches every one of them.

An inadvertent benefit of the pandemic has been that ecologically sensitive destinations have had the opportunity to recover. These destinations now have no intention of returning to pre-pandemic levels of harm. Efforts include Italy limiting visitor numbers to Venice whilst the Maldives Reimagining Tourism project is developing ways to make tourism in the Maldives more inclusive, resilient and sustainable.

High-end, low-impact tourism can fund the protection of an ecosystem and its surrounding community. Examples include South Africa's Phinda Private Game Reserve, where visitor's fees help conserve the country's largest population of black rhino, and Indonesia's Misool diving resort – which funds a marine reserve larger than the whole of New York City.

The Explorations Company offers safaris to Kenya with all profits going to a local trust, while a bespoke philanthropic tour with Wild Philanthropy founder Will Jones will take in landscapes that need rewilding. Expect 2022 to see a rise in journeys that give back in some way, either directly by visiting communities, eco-projects and sustainable hotels, or by getting involved in philanthropic organisations that benefit communities and conservation on the ground.

CASE STUDY: LEARNING FROM FOOD

Everything good comes from the ground – above or beneath the soil. The food industry has been dealing with slow-moving changes in average conditions (for example, climate, nutrient and water cycling) and larger disruptions like floods, droughts and extreme heat as well as pests, disease, algal blooms, coral bleaching and aflatoxins for the past decade.

At the same time, the rise of seasonality, risk of scarcity, food trends and consumer awareness mean food and luxury are becoming closer in spirit and, in many cases, practice. Emporio Armani has Michelin starred restaurants in Paris, Milan, New York, Tokyo, Munich, Dubai and Mumbai; Gucci has a full-service branded restaurant in Shanghai's IAPM mall as well as a Gucci cafe at its museum in Florence. Louis Vuitton has a café and restaurant at its Osaka "maison" called Le Café V with a menu designed by acclaimed Japanese chef Yosuke Suga.

Food producers have been developing systems for managing climate change for years – although there is still significant work to be done. Research on new plant varieties, use of simple technology and collaboration between public and private sector mean, for instance, that Canada's International Development Research Centre has helped female farmers in Uganda grow more resilient legumes and receive direct payments thanks to a mobile phone digital payments platform called the MasterCard Farmer Network, whilst the NutriFish project uses gender-inclusive financing, certification of processed fish products, improved access to formal markets, and promotion of community-level gender equality to reduce food waste, deploy solar powered drying tents and spread low carbon smoking kilns.

As a result, luxury houses are turning to executives from FMCG companies to guide their next steps. Chanel named Leena Nair, an executive from Unilever as its new global CEO at the end of 2021. Under her watch Unilever achieved gender parity across global management, (according to a Harper's Bazaar profile published in November), and has been working to pay the living wage across the supply chain. In January 2021, Chanel appointed Kate Wylie as global chief sustainability officer from Mars Inc where she held the role of global vice president of sustainability, while Louis Vuitton's CEO Jordi Constans was formerly EVP of Dairy at Danone.

When Vanessa Barboni Hallik set out to create her apparel brand Another Tomorrow, she looked to the food industry for inspiration. She wanted to build traceability into her business model, and the food sector had a strong track record for traceable supply chains. The former financier took inspiration from the farm-to-table food movement, which rebelled against the industrialised food sector's supply chains spread all over the world.

The collection is made up of only four materials, each with a low environmental impact: organic cotton (sourced from Texas and New Mexico), organic linen (from northern France), wool (from two sheep farms in Tasmania) and FSC-certified viscose (made with wood pulp from Sweden). The brand has also pledged not to use certain animal-derived materials such as leather, horn, skins, silk or down, and has eschewed virgin cashmere because of desertification in Mongolia, where cashmere goats are depleting grasslands, though it plans to introduce recycled cashmere in the fall. Another Tomorrow's wool is then woven into custom fabrics in Italian textile mills — which are audited for their safe working conditions and living wages — using processes that follow stringent ZDHC (Zero Discharge of Hazardous Chemicals) rules and water-management standards.

Three key takeaways for luxury businesses

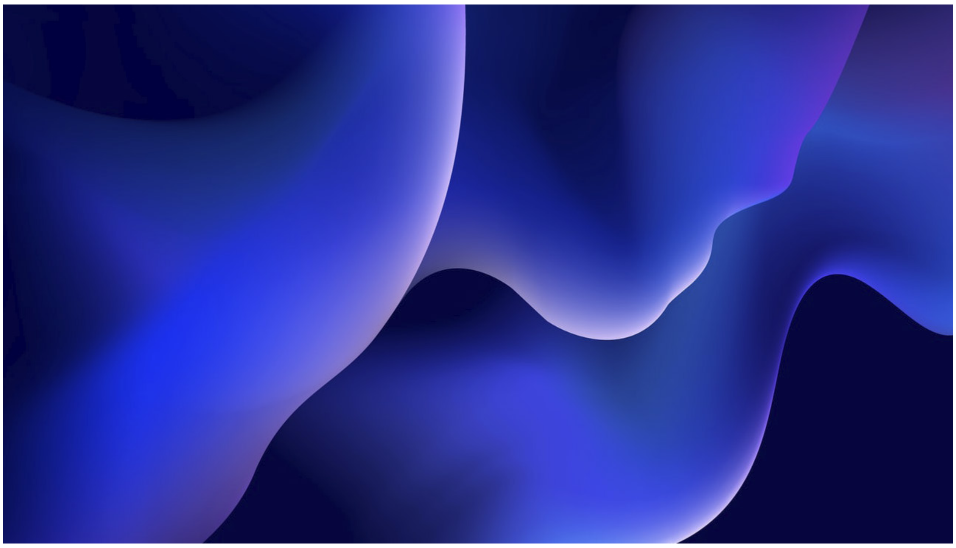
1 Brands need to learn to think outside of their traditional geography. Climate change means that materials and ingredients that are fundamental to their products may have to come from unexpected sources.

2 Climate change will force consumers and brands to fundamentally re-think their perception of luxury. New generations will have to value a Chinese fine wine as much as a French one or choose a local staycation over a tropical beach getaway.

3 It is essential that organisations build relationships throughout their full value chain. It is impossible to achieve lasting resilience without collaboration between brands and suppliers.

CHAPTER TWO:

THE TRANSPARENCY REVOLUTION



"FOR LUXURY BRANDS, transparency is an existential issue," says Christie Miedema, campaign and outreach coordinator at the Clean Clothes Campaign. "They have a lot more skin in the game. Everyone knows about Bangladesh and Primark. For a luxury brand – when they find that product is made in Albania or Serbia, people not only say what is happening in those factories but why isn't my bag made in Italy?"

Consumer expectations for the fashion industry, luxury or not, to treat workers fairly and be transparent on wages and labour rights are as high as expectations for environmental issues. However, the industry is lagging behind according to July's Fashion Transparency Index, which reveals that the majority of major fashion brands (99%) do not disclose the number of workers in their supply chain that are being paid a living wage, 96% do not publish a roadmap on how they plan to achieve a living wage for all workers in their supply chain, just 3% are publicly disclosing the number of workers in their supply chains laid-off due to COVID-19, and while 62% of big brands publish their carbon footprint in their own facilities, only 26% disclose this information at processing and manufacturing level and only 17% do so at raw material level.

In October 2021, global risk analysts Verisk Maplecroft warned that child labour, discrimination, forced labour, health and safety, and the exploitation of migrants in the workplace have worsened globally for the past five years, especially within the world's manufacturing hubs. The company said the risk of modern slavery in Myanmar, Bangladesh, Vietnam and Cambodia has jumped from high to extreme, joining China, Pakistan and the Democratic Republic of Congo. Let's remember that this is not a nice to have, but that it's illegal.

Much of what is discussed by companies and in the media about ethical brand behaviour is well intentioned, but when issues arise in tier two or tier three suppliers it's increasingly difficult for brands to throw up their hands in shock and say they had no idea such terrible pollutants/building regulations/employment rights existed.

KnowTheChain's 2021 Apparel and Footwear Benchmark Report ranked 37 fashion companies on a scale of 0 to 100 on their efforts to fight forced labour, with 100 representing the best practices. The report identified allegations of forced labour in the supply chains of 54 percent of companies it examined.
Kering, owner of Alexander McQueen and Gucci, scored 41 out of 100, while LVMH, owner of the Christian Dior and Louis Vuitton, scored 19 out of 100, Tapestry, owner of Coach and Kate Spade, scored 16 out of 100 and Prada scored 5 out of 100.

Although the numbers are not yet near where we would like to see them, there is some industry progress. Miedema says that "transparency is one of the few areas where I have seen considerable momentum towards positive change in the last few years. First step is making information available, the second is making it searchable – not just a pdf online. Information is only meaningful if it can be accessed and used by the right people, most importantly workers, their representatives and activists."

According to Ayesha Barenblat, founder and CEO of pressure group Remake which campaigns for a more just, transparent, and accountable fashion industry, this is a good start. "Transparency is a first step, not the end point," she insists. "Companies can't rest on this – it's a tool for doing more. Governance is needed – true transparency needs to sit at the executive level and be ingrained in the company culture and operations. Maybe Transparency as a term isn't enough – it's been co-opted by brands. Maybe the better word is Accountability."

Remake wants to see tier 1 manufacturing all the way to raw materials. Barenblat argues that, for luxury, this is especially important due to materials and mill working conditions. This should be backed by year-on-year progress and reporting. "In transparency, it's beyond supply chain visibility. Tell people what you are doing and what your progress is toward environmental and social issues. Supplier transparency and engagement often comes down to leverage. If a brand has a long-term business relationship and a less complex supply chain, that helps. Data and tech is not the solution itself for this issue."

Smart brands have been reacting to this. Gucci has drastically reduced its reliance on independent leather goods suppliers – to ensure transparency and

> INFORMATION IS ONLY MEANINGFUL IF IT CAN BE ACCESSED AND USED BY THE RIGHT PEOPLE, MOST IMPORTANTLY WORKERS, THEIR REPRESENTATIVES AND ACTIVISTS.

increase control over production capacity. In August 2021, the label secured a deal with Italian bank Intesa Sanpaolo to offer small and medium-sized businesses in Gucci's supply chain financing lines and easier access to loans with better terms and conditions to launch their own sustainability, environmental, and social development initiatives. Gucci has also made its economic profit and loss account public since 2019 on its digital platform Gucci Equilibrium.

LVMH, meanwhile, has moved production of all the shoes for its labels to Italy, as well as a large part of its ready-to-wear collections and all handbags, except those by Louis Vuitton. Facing a shortage of skilled labour, Chantal Gaemperle, executive vice-president human resources and synergies at LVMH, says the company is investing in training artisans and trialling a programme to raise awareness of artisanal training with teenagers in school.

IF YOU AREN'T FULLY TRANSPARENT NOW IS THE TIME FOR YOU TO START THE JOURNEY TOWARDS IT

If you aren't fully transparent, and most aren't, now is the time for you to start the journey towards it. In France, 2019 saw comprehensive end-to-end supply chain accountability legislation: the Droit de Vigilance, a statute requiring large companies operating in France to monitor and remediate human rights and environmental risk across their global operations, and their suppliers. It's all part of a culture shift toward transparency across supply chain industries. Further legislation will come but it's better to be ahead than behind.

The EU's supply chain law will come into force in 2022 – it states: "voluntary due diligence standards [...] have not achieved significant progress. While companies have a duty to respect human rights and the environment, it is the responsibility of states and governments to protect human rights and the environment. This responsibility should not be transferred to private actors." And the European parliament intends the law to cover SMEs as well as large corporations.
Similar legislation is underway in the UK, Germany, Norway, the Netherlands, Australia and, potentially, the US whilst Canada's Standing Committee on Foreign Affairs and International Development has called on the Government of Canada to "immediately take the next critical steps by formally committing to working with civil society, trade unions, investors, and the private sector to design the right supply chain legislation."

Once these laws are in place, Miedema of the Clean Clothes Campaign explains, 2022 could be the year luxury brands are publicly shamed. "We don't believe that consumer pressure is the way to sway a brand," she argues. "Supply chain transparency legislation benefits activists, NGOs and worker representatives to hold brands to account."

Many luxury brands are adapting traditional businesses to face these new challenges. Younger companies, on the other hand, can offer useful guidance as they're building from the ground up.

Positive Luxury spoke to Sandya Lang, sustainability manager at premium denim brand Nudie Jeans, who offered a step-by-step guide for positive actions brands can take today:

- **Start with the sustainability mindset. Building transparency is far easier at the start than the end. Have a supply chain you can see and control.**
- **Audit your supply chain. This is crucial. Nudie doesn't take it for granted just because something is made in Europe that it's fully sustainable. Audits are fundamental to transparency.**
- **Work with suppliers on building transparency. Don't give up right away if there are issues with a supplier. Build capacity and form long term relationships.**
- **Map the full supply chain and post the information online. Then create a clear sourcing strategy that makes it clear how you will buy materials and components.**

Four key takeaways for luxury businesses

1 Start to communicate more transparently today. The technology is already there and there are no more excuses. If brands expect consumers to believe their sustainability story and come along on the journey, they must act. Most importantly they need a certifier that can independently validate their claims – whether that is a specific certification or a systemic one like the Butterfly Mark.

2 Bold commitments like net zero are impossible without transparency. To achieve the headline commitments, brands must start with the basics. Transparency is a first step. Without it, you've given the consumer little reason to trust you.

3 It is essential to take your team on the journey with you. Talk your stakeholders through your objectives to encourage them to engage with your goals. A complex goal like net zero requires the support of your entire organisation.

4 The demand for transparency isn't limited to fashion. Companies across all luxury industries should expect the demand for accountability from their stakeholders to grow exponentially. Start taking these demands seriously now.

CHAPTER THREE:

SUSTAINABILITY LEGISLATION GOES GLOBAL

IN 2022 THERE WILL be considerable pressure on governments and the private sector around the world to make real, measurable efforts to improve the environment and working conditions. Legislation either planned or passed will come into effect whilst consumers are getting savvy about ways to use existing laws to apply pressure. The future for most companies is an understanding that things that would have been a reputational risk are now becoming a legal risk.

When it comes to changing the world's harmful practices on people and our planet, "voluntary action is proven not to be enough," says Ayesha Barenblat, founder and CEO of Remake. "There is a huge role for legislation. The Garment Worker Protection Act in California is a ground-breaking example. It links responsibility to suppliers and brands for wage-related issues. Transparency means put your advocacy and investment where it matters – support legislation across the industry and don't lobby against it as many brands have. Support laws, don't kill them."

The results of 2021's COP26 Glasgow Climate Conference included the US and China agreeing to co-operate on clean energy, more than 100 countries promising to stop deforestation and two-fifths of the world's financial assets, roughly $130 trillion under the management of banks, insurers and pension funds, signing up to 2050 net zero goals making it harder to finance oil fields or coal mines.

But the elephant in the room remains the volunteer carbon market. The COP26 final agreement made progress on voluntary carbon trading markets, but the language fell short of fully realising the rules and procedures needed. On the plus side, we now have a revised Article 6 of the Paris Agreement. Carbon trading is widely considered to crucial to reducing CO_2 and GHG emissions because it enables investment in emissions-reductions technologies.

The new technologies that could grow as a result include renewable reforestation tools and engineering services that ensure emissions reductions. Initial estimates suggest the potential market size of international carbon credits could be between $100-400 billion per year by 2030.

It's not the ideal long-term solution, however, as Matt Williams, climate and land programme lead at the UK non-profit Energy and Climate Intelligence Unit, said in a tweet on 15 November. He warned that the Article 6 text doesn't completely prevent countries or companies from gaming the system by continuing to pollute while buying carbon credits that provide no climate benefit.

As the rules are further revised, observers expect that emissions trading will continue its rapid growth. It is hoped carbon markets will open a way for the private sector to seriously contribute to reducing

> SUSTAINABILITY MUST BE BUILT INTO THE VERY DNA OF A COMPANY'S STRATEGY

emissions. If the savings using carbon credits, as opposed to directly reducing emissions, are reinvested in additional mitigation activity, this would close the gap towards the goal of the 1.5 degrees Celsius Paris target.

Following COP26, Marie-Claire Daveu, Chief Sustainability Officer at Kering, urged fashion brands to seize the moment and change: "fashion is one of the most polluting industries in the world," she said in November. "Sustainability must be built into the very DNA of a company's strategy. Sustainability is not a constraint for creativity. It's an opportunity, an invitation to be better, now called for by customers and investors alike."

And luxury brands that don't act may find governments forcing their hands. 2022 will see a range of laws come into effect across the world. The United Nations will pass its wide-ranging Global Pact for the Environment. A draft preliminary text of the Pact outlines the right of every person 'to live in an ecologically sound environment adequate for their health, well-being, dignity, culture and fulfilment'. Although not legally binding, the Declaration will offer specific guidance to lawmakers around the world.

2022 also sees final meetings on global agreements for management of chemicals and waste in June, the convention on international trade in endangered species in November and COP27 next November.

Governments are stepping up. In Vietnam, The New Law is coming into effect in January 2022, introducing the country's first concrete policy on emissions trading and carbon tax, as well as rules on waste management and the significant streamlining of environmental permits.

The European Union's revised Climate, Energy and Environmental Aid Guidelines will bring in a range of measures to support 2020's European Green Deal, whilst the US Environment Protection Agency's Strategic Plan for 2022 through 2026 will enforce the Biden administration prioritising of environmental justice and the protection of vulnerable populations.

In the UK, the Environment Act became law in November 2021, requiring the government to stop species decline, control waste and create a route for communities to take legal action when laws aren't followed. The Act sets out powers to introduce a deposit return scheme and charges for all single use items.

LEGISLATION UPDATE: THE USA WITH REGAN DEMAS

An interview with Reagan Demas, partner, Baker & McKenzie. Demas is an expert on global supply chain compliance, anti-corruption and Foreign Corrupt Practices Act, fraud, business ethics, human rights and corporate compliance and serves on the steering committee of the North American Litigation and Government Enforcement Practice Group.

Do you see any major ESG legislation passing in the US this year?
The US legal system faces political gridlock but in a gridlocked society there are still ways obligations can change – one through consumer change and one through rule changes.

How do you mean?
With ESG legislation, the environmental E has progressed in Europe. In the US there's a lot of pushback – there's still a partisan approach to the Paris accord politically. It's the 'S' aspect of ESG that's more in tune with US consumers. There may be very little bipartisanship on anything – especially climate – but there are strange bedfellows on anti-trafficking and forced labour on the conservative and leftist sides. There is the Slave-Free Business Certification bill in congress and something like it will become law. That will align with and maybe go beyond Europe regarding disclosure and suppliers.

And what about the rules?
In March 2021, the Biden administration tasked the Securities and Exchange Commission with creating of a Climate and ESG Task Force in the Division of Enforcement.

Will that only affect listed companies?
Even though whatever the taskforce comes out with this year in terms of mandatory disclosures applies only to listed companies, it will flow downhill along the supply chain and into companies that do business with listed companies. We saw that with conflict minerals a few years back. Listed companies started going to suppliers and everybody got sucked it. It went right back to the smelters – so companies that think these rules won't be a problem because they're not listed should think again.

So where does consumer change come in?
There's a very interesting series of laws at state level that have been used for years by people suing companies for things like workplace abuses. Now they're being used, quite craftily by plaintiffs and advocacy groups for companies that greenwash or make incorrect statements about their supply chains on the grounds that they are deceiving the consumer. The standard for many of those laws is – would it impact a reasonable consumer's choice. The reasonable consumer is changing and feels a lot more about slavery and climate is unreasonable. Even without new legislation the consumer is creating laws by changing what they deem acceptable.

> "IT'S THE 'S' ASPECT OF ESG THAT'S MORE IN TUNE WITH US CONSUMERS"

What do companies need to bear in mind?
No company wants to have slavery or poison water in its supply chain - but they now have to organise around screening and due diligence without it becoming too expensive.

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COMPANIES THAT THINK THESE RULES WON’T BE A PROBLEM BECAUSE THEY’RE NOT LISTED SHOULD THINK AGAIN

REAGAN DEMAS, PARTNER,
BAKER & MCKENZIE

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LEGISLATION UPDATE: CHINA WITH JING DAILY

China's legislative agenda is organised around Five Year Plans, which outline the Chinese Communist Party's intentions. The most recent plan, the 14th Five Year Plan, was issued in 2021 with ambitious targets to eliminate air pollution, increase forestation to soak up carbon, and set aside over 25% of China's land for natural parks

> LUXURY ORGANISATIONS EXPANDING INTO CHINA MUST EXERCISE CAUTION. TRADITIONAL MEANS OF COMMUNICATING WITH CONSUMERS AND BUILDING A BRAND MAY NO LONGER BE AN OPTION.

or protected ecological zones. The five-year plan sets an 18% reduction target for "CO2 intensity" and 13.5% reduction target for "energy intensity" from 2021 to 2025. Vast wind farms and arrays of solar panels have been built, and more are coming.

China's push to host a "green" 2022 Olympics and Paralympic Winter Games, scheduled to take place 4-20 February and 4-13 March in Beijing, has seen the central and provincial governments take new measures to cut pollution from industrial, residential and transportation sources, including switching away from coal. China plans to power all games venues in the co-host cities of Beijing and Zhangjiakou with renewables-based electricity and more than 85% of public transport will be from clean energy vehicles including pure electric, natural gas-powered, hydrogen fuel cell and hybrid vehicles.

The most immediate legislative changes facing companies in 2022, according to Jing Daily's Adina-Laura Achim, are reforms of the data privacy law, with increased state control of data, especially for international data transfers. "Stricter regulations are expected for online content, especially the current fan/idol culture that luxury brands have used to reach consumers, and Chinese idols will be forced to embrace a more patriotic style," she explains. "China will force some Western companies to bid farewell to its rich market. China wants only international companies that can offer serious technological leverage, can influence Washington or help China innovate."

Luxury organisations expanding into China must exercise caution. Traditional means of communicating with consumers and building a brand may no longer be an option.

In 2022, says Achim, businesses that tackle social and economic challenges and revitalize low- and moderate-income communities will secure financing and obtain government assistance. The Chinese government will invest in sustainable development and focus on reducing industrial waste. "Policymakers will also implement stronger measures against polluting companies and industries," she explains. "The change is already on the way. Last Spring, steel manufacturers operating in Tangshan were pressured to respect environmental codes otherwise they risked having their production cut by as much as 50%. Global businesses that deviate from environmental targets should expect increased supervision and penalties."

Two key takeaways for luxury businesses

1 Don't just wait for legislation – be in the know and prepare for what's coming, but also go above and beyond compliance. Being reactive is both a business and reputational risk.

2 Local legislation requires local knowledge. The fast pace of legislative change means that now more than ever brands looking to expand internationally need to find expert local partners to guide them.

CHAPTER FOUR:

THE GEN Z MYTH

FOR YEARS LUXURY BRANDS have talked about the rise of Gen Z and Millennials as driving conscious consumption. However, climate change, inequality and a globe linked by dangerously insecure supply chains means a social conscience is no longer a youthful fad. It reaches every generation – from Boomers to Gen X, Millennials, Gen Z and Alphas. In fact, Alphas will be to climate change what Millennials were to digital – sustainability natives. There's no financial return for the brands that choose to greenwash, but there is a great opportunity both reputationally and financially for those who understand that business transformation is essential for the next decade.

Brands are increasingly looking for *purpose*, but consumers are looking for trust – and brands that reflect their values. "Consumers across generations will stop buying you if you are not promoting social and or environmental sustainability. Brands must rethink their entire value chain." says Felix Kreuger, associate director, fashion and luxury at Boston Consulting Group

The personal luxury goods industry came roaring back in 2021, with Bain & Company estimating that the market could reach EUR 360-380 billion by 2025 – a sustained growth of 6-8% annually. Younger consumers are driving this growth, but for brands to write off older consumers is a mistake.

Research from Statista shows that in 2018 the largest group of luxury consumers were Generation X, who made up 38% of the market. Millennials came in second at 32% with Boomers still a healthy 26%. Generation Z accounted for just four percent. The same survey predicted a strong rise in share for Millennials by 2025, accounting for 50% of the market, with Generation X holding on to 33%, Boomers slipping back to nine percent and Generation Z – at that point in their 20s and 30s – still accounting for just 8%.

And whilst younger generations may be more vocal about their environmental concerns, the idea that there's a generational divide on the importance of sustainability for luxury brands is simply false. In 2019, Positive Luxury's Predictions Report talked about just that. This is now being proven by researchers such as Bobby Duffy, professor of Public

Policy and Director of the Policy Institute at King's College, London, and author of Generations: Does When You're Born Shape Who You Are.

In September 2021, Duffy oversaw research at KCL into generational attitudes to climate change. "When you look at the data you have nothing like the gaps between younger and older generations that you see reported in headlines," he explains. "The difference in concern is just a few percentage points and when you look at boycotting products it's more commonly older consumers than younger consumers – and that's true across different countries, although some countries like the US are more likely to boycott brands in general. If we take snapshots and think younger people are different, we are mixing up period effects and lifecycle effects. Younger people have less money and other things on their minds so it's understandable that older groups more active."

Indeed, YouGov research has found that older Americans are more likely than younger Americans to have boycotted a business, with 57% of those aged 45+ having done so, compared with around 45% of people aged 25 to 44 and 37% of those aged 18 to 24. But the US public wrongly believe that the oldest age group, people 45 and over, are least likely to have carried out such a boycott.

So, what's going on?
There are three basic types of social change, according to Duffy:

COHORT EFFECTS
– ideas and actions that are different in different generations or groups.

LIFECYCLE EFFECTS
– changes that occur as we age.

PERIOD EFFECTS
– changes were everyone is affected marking a gradual cultural evolution.

The idea that younger people are different confuses period effects and lifecycle effects. The media pays a lot of attention to very high-profile examples like Greta Thunberg and climate strikes at school, Duffy argues, so the narrative mistakes this for a cohort effect. In fact, Duffy's research found that older people are actually more likely than the young to feel that acting in environmentally conscious ways will make a difference, with twice as many baby boomers having boycotted a company in the last 12 months for environmental reasons than Gen Z.

RESEARCH HAS FOUND THAT OLDER AMERICANS ARE MORE LIKELY THAN YOUNGER AMERICANS TO HAVE BOYCOTTED A BUSINESS

Indeed, a 2020 Opinium poll of UK consumers found that about half of people over 55 say they shop locally, buy fewer clothes and clothes that last longer and try to avoid single-use plastics while about a quarter of those aged 18-34 said they do the same.

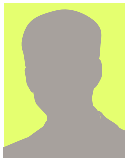
"Thunberg is described as the voice of her generation, but people don't say that David Attenborough and Al Gore are the voices of a generation," Duffy points out.

"And Extinction Rebellion protesters are largely Generation X." What is dangerous, he adds, is that his work shows we believe that old people don't care and aren't as active.

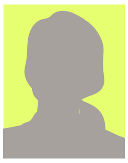
When it comes to sustainability the generation gap is a global myth. A meta-analysis by researchers at the University of Auckland, New Zealand of a variety of surveys over a ten-year period taking in some 90,000 individuals around the world found either no or negligible relationships with age. The only difference they discovered was that older individuals appear more likely to engage with nature and thus have their concerns driven by a desire to conserve natural resources and avoid environmental harms while younger individuals were more likely to be motivated by societal norms.

You might almost say that Gen Z is motivated by people, while Boomers are motivated by planet.

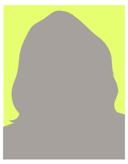
MEET THE CONSUMER



"My generation were the original environmental movement. I remember the first photo of the Earth from space. That had a big effect. I hate this generation culture wars myth. I want my grandchildren to have the same lovely green planet I had. And I don't feel old. I hate being told I'm old by twentysomething advertising creatives. If you're doing something good, I'll support you."
Robert Fulton, 68, former surgeon



"I will boycott racist brands, and I mostly check on supply chain issues if I'm making a big purchase – although I'm not buying diamonds just yet. I might never buy them. But after Covid, I admit I want to take cheap flights to Budapest – I'm going with some friends in the New Year because it's only £7. I know it's a contradiction, but people aren't just one thing."
Alice Hurding, 26, civil servant



"It's taken me a long time, I have to be honest, but actually since I've had children, I have started paying attention to what I buy much more. In fact, it's my children educating me. So, for example, they won't let me buy plastic straws anymore. We've thrown them out and bought some beautiful rose gold straws. And as soon as you start it's impossible to stop. Our next car will be electric, probably Tesla, because I know it's right and I know they'll be delighted."
Anna Schnell, 44, fintech start-up

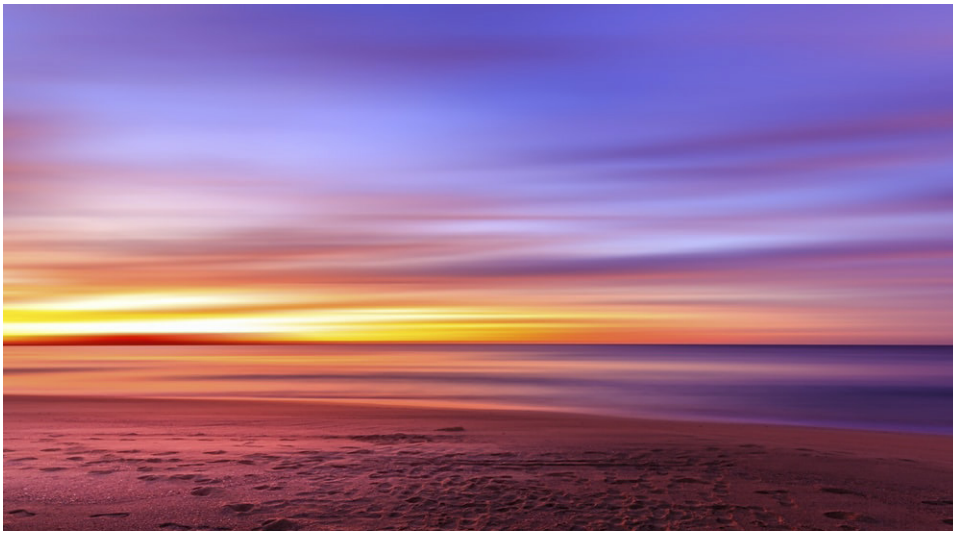
Two key takeaways for luxury businesses

1 Do not tailor your sustainability messaging and products to Gen Z alone. Consumers motivated by environmental and social issues come from every generation and background – by making assumptions about entire segments of the population, your brand risks alienating the very people it needs to reach.

2 Whilst all generations value environmental and social issues, they come to it from unique angles. Remember that to younger generations, social issues like Black Lives Matter are indivisible from issues like planetary health.

CHAPTER FIVE:

ANOTHER WORLD IS POSSIBLE



AT TIMES OF GREAT crisis, new ways of thinking emerge. In 1930, just as the Wall Street crash kicked off the Great Depression, the economist John Maynard Keynes speculated that change was only limited by our imagination. If we rethought the basics of our economy and reinvented the way we did business then by the year 2030 we would create a society where everyone's basic needs were met, economic growth would slow, people would work as little as fifteen hours a week and spend more time enjoying the arts, culture and leisure activities. Striving for growth at all costs would seem 'semi-pathological', he argued.

> "Another world is not only possible, she is on her way. Maybe many of us won't be here to greet her, but on a quiet day, if I listen very carefully, I can hear her breathing."
>
> *Arundhati Roy, Prizewinning author*

It's taken almost a century, but economists across the world are picking up Keynes argument and suggesting growth at all costs is madness – for people and planet. "The faster we produce and consume goods, the more we damage the environment," says Giorgos Kallis – an economist at the Autonomous University of Barcelona – in his manifesto *Degrowth*. "If humanity is not to destroy the planet's life support systems, the global economy should slow down."

In his influential book *Prosperity Without Growth: Foundations for the Economy of Tomorrow*, first published as a report for the UK government, Tim Jackson, a professor of sustainable development at the University of Surrey, claims that "people can flourish without endlessly accumulating more stuff. Another world is possible."

In November, the international Climate Governance Initiative (CGI) called on board directors across the world to place the climate transition at the heart of corporate strategy. Board directors should rapidly skill up to confront the climate emergency. The Climate Governance Initiative network represents over 100,000 board directors across more than 20 major economies, with the capability to influence trillions of dollars of capital through the companies they serve. To this, the World Economic Forum added that the urgent need to address the climate emergency requires governments and business to accelerate the transition to a new economic model.

GROWTH MUST BE DECOUPLED FROM UNFETTERED PRODUCTION AND CONSUMPTION

So where does this leave luxury? In theory, luxury's quality over quantity ethos is perfect for a slow growth economy. But brands don't always practice what they preach. According to Vogue Business: "The sustainability performance of the (apparel) industry is just not catching up with the pace of growth. Even if we pull all the levers, we will be very far from having a sustainable industry by 2030."

The United Nation's Sustainable Development Goals – set out in 2015 by the UN General Assembly as a series of targets to be achieved by the year 2030 – includes goal 12, which argues that sustainable consumption and production is about doing more and better with less, decoupling economic growth from environmental degradation, increasing resource efficiency and promoting sustainable lifestyles.

For luxury to be truly sustainable, growth must be decoupled from unfettered production and consumption. Gucci's approach to a 'seasonless' model might offer a way forward, alongside the brand's radical approach to new materials.

Gucci's plant based Demetra, created and manufactured in Italy, combines quality, softness and durability from animal-free raw materials primarily from sustainable, renewable and bio-based sources. It's used in three new sneaker models — the Gucci Basket, Gucci New Ace and Gucci Rhyton – and the company has offered the open-source material to the rest of the industry for free. Demetra scraps produced during the manufacturing process will be upcycled and reused.

According to creative director Alessandro Michele, "I will abandon the worn-out ritual of seasonalities and shows to regain a new cadence… We will meet just twice a year, to share the chapters of a new story." As Tim Jackson puts it: "The only option is to question growth itself. In fashion, ultimately, the goal has to be producing less."

Vivienne Westwood, meanwhile, has reduced the size of its ready-to-wear business by 37%, bags by 55% and shoes by 58% over the past few years. "We had to walk the talk of our 'Buy less, choose well, make it last' mantra," says global brand director, Christopher Di Pietro. "We can sell less, but sell better, and still be profitable."

If this is to continue, luxury needs innovation in business models across brands and markets. This must be more than just repair and re-sale markets. Fortunately, there are brands pursuing new strategies and achieving sufficient success to act as a beacon to the industry. In many cases these are SMEs or start-ups.

Wendy Iles, founder of Iles Formula hair care, began her career as a stylist on luxury ad campaigns, devised private formulas to repair "the tortured celebrity hair I often had in my chair," she explains. The celebrities started placing orders for the product, so she launched the brand. Iles replaces sulfates, paraben and silicon with raw, virgin ingredients from root juices through vitamin b to tucuma seed butter, macademia nut oil and silk proteins.

"Our business model is based on my two mantras; 'minimalism meets maximum performance' and to be 'a breath of fresh air in an oversaturated haircare market,'" she explains. "Our priority is on the performance of the few formulas, rather than great marketing campaigns on a huge range of average products. To date, we've relied mostly on our reviews and the power of word of mouth. I have never been interested in launching endless new products for the sake of boosting numbers; it's unnecessary, causes confusion and is wasteful. Formulate less and do it extremely well."

Iles believes any brand can adapt their business – but it takes courage. "It's an ongoing commitment," she believes. "You need to keep abreast of all the latest technologies and be prepared to implement them into your business. With plastics and inks for example, there are options, none of them are perfect yet but they will get there. The consumer is already voicing their demands."

This isn't just an issue for smaller companies – in 2020 Burberry and Chanel issued sustainability-linked bonds. Burberry borrowed £300m to finance investments in energy efficient buildings, sustainably produced cotton and sustainable packaging and labelling materials. The bond was hugely oversubscribed and one year on, Burberry has increased the share of power generated from renewable energy sources in its factories to 93% and says it is confident of achieving 100% renewables-generated electricity by next year. In the past financial year, the company's use of leather sourced from tanneries that have environmental, traceability and social compliance certifications has reached 80% and it has raised its target of reducing the emissions from its supply chain by 30%

"YOU NEED TO KEEP ABREAST OF ALL THE LATEST TECHNOLOGIES AND BE PREPARED TO IMPLEMENT THEM INTO YOUR BUSINESS."

by 2030 to 46%, in line with 2015 Paris Agreement targets.

In late 2020, Chanel announced the issuance of a €600 million Green Bond to decrease Chanel's carbon emissions by 50% by 2030, decrease Chanel's supply chain-related greenhouse gas emissions by 10% by 2030, and shift to 100% renewable electricity in Chanel operations by 2025. If these targets are not met, Chanel will pay back more than 100% of the money borrowed.

Also in 2020, Italian brands Moncler and Salvatore Ferragamo took out €400m ($470.7m) and €250m loans respectively, with margins linked to ESG targets, and Prada took out sustainability-linked loans: a €50m five-year deal with Crédit Agricole in November 2019, a €75m transaction with Mizuho in January 2020 and a €90m five-year loan with UniCredit in February this year all based on reducing emissions and waste. Mercedes parent company Daimler issued its second green bond in 2021, borrowing €1 billion to ensure that hybrids and electric vehicles account for at least half of its global annual sales by 2030.

According to a survey of 353 asset and investment managers, development banks, regulators, ratings and verification service providers, green bonds are set to hit $1 trillion by the end of 2022. Social bonds – used for projects that promote improved social welfare and positive social impact for vulnerable, marginalised

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I HAVE NEVER BEEN INTERESTED IN LAUNCHING ENDLESS NEW PRODUCTS FOR THE SAKE OF BOOSTING NUMBERS; IT’S UNNECESSARY, CAUSES CONFUSION AND IS WASTEFUL. FORMULATE LESS AND DO IT EXTREMELY WELL.

WENDY ILES, FOUNDER ILES FORMULA HAIR CARE

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or disadvantaged populations – have grown significantly during 2021, with $140 billion issued in the first half of the year according to financial data firm Refinitiv. In 2022, restructuring business models with our grandchildren in mind will become increasingly popular although Keynes final sentence – "if economists could manage to get themselves thought of as humble, competent people, on a level with dentists, that would be splendid!" – still seems a long way off.

Anna Brightman is co-founder of UpCircle Beauty, which repurposes waste ingredients to create award-winning skincare & beauty products.

Where did the idea come from?
As a brand you must be ahead of trends or setting them yourself. The key element of this is seeing your brand, product or business as constantly evolving. Just over five years ago I asked a local coffee shop what they did with their waste coffee and was shocked to hear that the council disposed of it on landfill sites. I knew that coffee had loads of great skincare benefits, so…that was my lightbulb moment. We began collecting coffee grounds from one coffee shop, we now collect from hundreds across London. Our palm oil-free soaps are made with residual chai tea spices left over after making chai syrups. Our fruit pit range is made with the powder of a different discarded fruit pit. This year we began repurposing residual fruit waters leftover after the creation of juice concentrates. The minerals, vitamins and functional actives present in the water have more benefits for the skin than a mineral filtered water. Water is a great target ingredient to replace with a more sustainable alternative. Next up, we're saving flower petals from florists and wedding venues.

That's very responsible – but does it work?
There's no point in us going to all of this effort to rescue ingredients if they have no benefit for your skin. The efficacy of the products has to come first, this is always our main priority. Research has shown that the level of antioxidants in coffee actually increase as it's brewed. The world has finite resources, and our ethos is centred on keeping things that we've already produced in use as long as possible, and moving towards a circular rather than linear economy. Preserving resources is our primary goal. Every ingredient we upcycle has to benefit everyone involved

> "PRESERVING RESOURCES IS OUR PRIMARY GOAL. EVERY INGREDIENT WE UPCYCLE HAS TO BENEFIT EVERYONE INVOLVED"

Can any brand do this? Is change possible?
Skincare is a crowded market. Lots of skincare brands can claim to be vegan, natural, handmade, organic, cruelty-free etc, but we want to go a step further. How many brands can claim that their products have saved literally hundreds of tonnes of valuable skin-loving ingredients from ending up in landfill? We say, "natural" is the new "normal" and normal is boring. Our tagline is "Pioneering skincare that's regenerative by design". We hope our success will inspire the industry to see that

being less wasteful is possible – without compromising on quality.

Are there any instant actions the industry can take?
Billions of units of packaging are produced every year by the global cosmetics industry, bulked out by the use of complex lids, multi-layered boxes and cellophane, much of which is superfluous, non-recyclable and ends up in our landfills and oceans. We'd love for the industry to move away from plastics or offer plastic-free refills like we do for products like our face serum. I don't think it's fair to ask consumers for action. The responsibility for producing beneficial beauty is one that lies with brands.

NEW BUSINESS MODELS: THE METAVERSE

First floated in Neal Stephenson's 1992 sci-fi novel Snow Crash, the metaverse is an idealised immersive successor of the internet – a virtual space where billions of users will move, interact, and operate across myriad different but interoperable worlds and situations, always retaining their avatar identities, virtual possessions, and digital currencies.

The idea of the metaverse jumped from the likes of Fortnite into the public consciousness in 2020, as the pandemic was raging across the globe, forcing most people indoors. The renaming of Facebook's parent company to 'Meta' is a response to this trend. When Facebook's Mark Zuckerberg announced the company's metaverse plans, he explained that "avatars will be as common as profile pictures today, but instead of a static image, they're going to be living 3D representations of you, your expressions, your gestures. You're going to have a wardrobe of virtual clothes for different occasions designed by different creators and from different apps and experiences."

Fashion has been exploring this space for years - Adidas, Calvin Klein, Reebok, Lacoste, and Jean Paul Gaultier as well as high end lifestyle brands like Herman Miller, BMW, and Mercedes all set up shop in the fledgling metaverse game Second Life back in 2012.

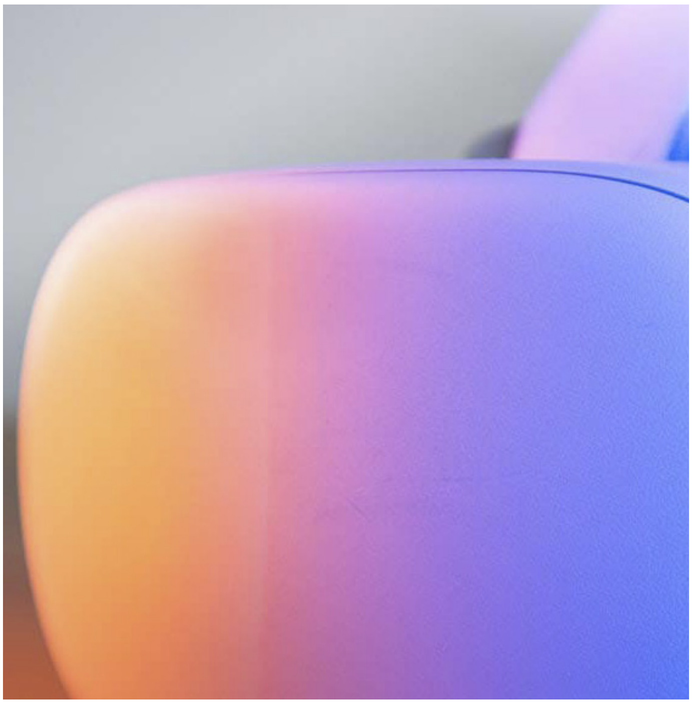
Gamers have long used clothes – or "skins" – to customise their avatars in an online game. In 2021, Burberry released exclusive designs for the mobile game Honor of Kings, Gucci created a virtual garden in the game platform Roblox with players able to buy virtual Gucci products in-game, with one digital bag selling for $4,115 dollars, almost 1,000 dollars more than its original, physical value while Balenciaga took to Fortnite, digitising its real collections with an in-game version of a Balenciaga store.

In 2020, Edinburgh born Karinna Nobbs and Caracas born Marjorie Hernandez launched The Dematerialised – dubbing it "the digital department store of your dreams." This store sells digital fashion assets to "challenge the traditional fashion business models of production, consumption and ownership with a more transparent, efficient and equitable approach," according to the company's mission statement. The stores first piece, by digital artist Schirin, was a silver sweater costing $137. Launched December 12, 2020, the whole run of 1,212 digital renderings sold out within three hours. Buyers received an NFT – nonfungible token – a virtual certificate of ownership that runs on blockchain technology.

> THE METAVERSE IS AN IDEALISED IMMERSIVE SUCCESSOR OF THE INTERNET

Creative Scientist, Futurist and Co-Founder of Kinda Studios Katherine Templar Lewis sees a bright future for the metaverse, saying: 'The metaverse will become increasingly pervasive and persistent. It is the first space of its kind to offer true co-creation and interaction between consumer and brand and with it endless opportunity to add value to brand and community… It is a space where a luxury brand can reach new audiences, bypass physical constraints and diversify revenue streams by adding digital products. You have the chance to be a pioneer in a new era of culture, entering new frontiers of entertainment and the blending of both your physical and digital space creating value for your brand and for your community in this brave new digital economy. Strategy is everything.'

So far, digital fashion has been platform specific – buying a Gucci skin for Fortnite means the item cannot transfer to other games or worlds, although digital fashion NFTs are traded on social media. For the true vision of the metaverse as market place to be realised, Mark Zuckerberg will need to allow avatars to wear digital luxuries bought in rival platforms or games. It's a big step. The benefits to brands are clear – no waste, high margins. But until the world's meta platforms can share open source code, it's a niche market.



Four key takeaways for luxury businesses

1 Small readjustments and course corrections are not enough. The only brands that will be truly successful in the coming green decade are the ones that can reimagine themselves from the ground up.

2 Invest in innovation. There is a reason Positive Luxury assesses innovation as part of our certification framework – it plays a crucial role in becoming sustainable.

3 Luxury businesses need to rethink what growth means. It is impossible for the planet to sustain our culture of constant expansion. What does your business look like when it is decoupled from that rat race?

4 Look to the metaverse. In the digital realm we can achieve double digit growth in financial terms without seeing double digital growth in the consumption of natural resources.

INTRODUCING THE START-UP ACCELERATOR PROGRAMME

WE ARE COMMITTED to driving innovation in sustainability within the luxury industry by supporting progressive luxury start-ups and micro-businesses on their sustainability journey.

The Start-Up Accelerator Programme identifies and supports young, innovative brands, suppliers and retailers – providing financial relief and tailored support during the initial assessment and guiding them towards Butterfly Mark certification.

In 2022, Positive Luxury will select 24 such innovative companies, supporting them to embed sustainability into their culture and operations from the very start, and offering advice on how to scale their business successfully and sustainably.

Find out more and apply at:

positiveluxury.com/start-up

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CONCLUSION

"The first two years of the decade have vividly illustrated the extremes of nature, humans, and society: the good, the bad and the downright ugly. They have been good years for sustainability, with consumers, legislators and the finance community placing increasing value on companies operating with genuine accountability. And while they have also been a pair of highly disruptive years for business, for the luxury industry I see coming from them nothing but opportunity for adaptable companies and bold business leaders willing to move fast.

A survey out last month from global consulting firm AlixPartners which took the global pulse of 3,000 CEOs and executives showed that 72% of CEOs worry about losing their jobs due to disruption facing their industries, up a staggering 20 points from high-anxiety 2020. 94% of executives said their business models need to be overhauled within the next three years, but 57% fear their company isn't adapting fast enough. This survey echoes what we see at Positive Luxury far too regularly: business leaders who acknowledge the need to adapt their organisation for the new climate economy, but do not act on that need with the determination or speed required. It's high time to step off the treadmill of volume-driven, consumptive growth and bland talk of commitments. The effects of climate on companies' operations should be seen as an existential risk: measurable and therefore certain. If a company and its leadership want to succeed, stop kicking the can down the road. Be accountable. Act now. 94% of us know that this is what is needed.

Companies across the entire luxury value chain – small and large, public and private – must urgently make and implement firm action plans to transition their organisation in radical, meaningful ways. They and their CEOs will not survive without clear actions, targets and timelines, and without making those public. The time for talk is long behind us. An eight-year window of opportunity is ahead of us and, for companies who embrace that with a mindset of courageous innovation, the opportunity is both exciting and extremely sizeable. Because in a climate-secure, equitable future:

- **Brands will use data and research to understand and respect consumers of all ages, not just chase trends, because they know grandparent, parent and child alike care about sustainability**

- **Companies will tell stakeholders directly where they are excelling and where they still need to go, in honest terms – not fluffy language. Statements will be backed by data and technology solutions that ensure accountability**

- **Governments will act in coordination to impose and enforce legislation on ESG issues**

- **Rather than fighting that legislation in secret, businesses will openly support it because they have nothing to hide and know there's a competitive advantage in strict legislation against greenwashing**
- **The luxury industry will redefine what it means to be luxurious, by building resilience against climate change and being active proponents of social justice**
- **Brands and suppliers will direct investment into innovations to push their products beyond avoidance of impacts and towards creation of a more positive and just society. New goods will account for a small proportion of growth; profit will come from diverse sources**
- **Luxury consumers will vote with their wallets, placing huge value on the protection of nature and vulnerable communities and supporting those companies clearly taking rapid and measurable action**

How close can we get to this 2030 vision, meeting our net zero targets while improving the wellbeing of all the people we touch throughout our value chains, from shareholders and employees, to suppliers and consumers? Positive Luxury's LuxCo 2030 report in partnership with Bain & Company, outlined a vision for fashion. It illustrated that the solutions are there, we just need to be brave enough to make the changes. Fast.

Sustainability and ESG are broad topics. In this report we've covered a range of subjects, each calling out the need for urgent action. We could have highlighted a completely different set of topics with the same need for urgency. It means a lot is needed across the board, and is needed now. Companies who recognise these numerous needs as the opportunities they are – organisations who embed sustainable innovation and business practices across every corner of their organisation and full length of their supply chain – remove the very real risk of redundancy, protect and replenish resources for future generations and provide consumers with what they most want: trust.

In 2022, we predict that the companies who will be the leaders in 2030 will seize the opportunities presented by new business models. The number of firms committing to transition to a climate economy will triple. Accountability and trust will be top of their corporate agendas. Disruption accepted as the new normal, innovation redefined. Due to changing consumer sentiment, investor demands, government investment, employee activism, inevitable regulation, and partner pressure, we predict these leading companies will prove their sustainability bona fides not just by signing pledges, but by publishing a step by step action plan of how they will meet them. This will trigger significant investment in sustainability management software for accurate carbon accounting and frequent reporting. New roles with real influence will be created, such as the Chief Trust Officer. Global supply chains will be overhauled for today and the future. Recruitment and retention reimagined in line with new skills required. Perhaps we CEOs should spend less time worrying about our jobs, and more time delivering a vision for collective action and accountability. We predict it's the best course of action for the future of our companies, nature and society.

Amy Nelson-Bennett,
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