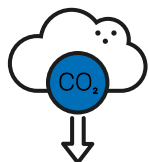


# Net-zero: Apparel

8% of human-caused greenhouse gas emissions come from the production and transport of clothing and footwear. <sup>1</sup>

What does the **apparel sector** need to do?

**LGIM will vote and implement investment sanctions against companies falling short of our climate expectations. LGIM expects companies' boards to oversee and publicly disclose answers to the following:**



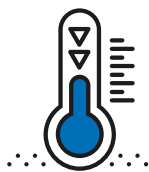
## Net-zero commitment

- Does the company have a comprehensive target for net-zero by 2050 or earlier, covering scopes 1, 2 and material scope 3 emissions?<sup>2</sup>
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?<sup>3</sup>



## Strategy

- What are the actions and investments involved in the company's plan to reach net-zero, and what is the contribution of each action towards meeting its targets?<sup>4</sup>
- Is the company offering recycling collection for sold products? What share of collected garments are recycled rather than disposed of?
- Does the company ensure traceability of fibres and compliance with zero-deforestation principles?
- Is executive remuneration aligned with the company's short- and/or medium-term emissions targets, as set out in the net-zero transition plan?
- Does the company's net-zero strategy integrate an assessment of related nature risks and opportunities, impacts and dependencies – for example, in relation to land-use change/ cotton agriculture/ supply chain deforestation?



## Resilience

- Has the company analysed its business model resilience to climate-related risks and opportunities using scenario analysis and disclosed how the output has influenced its strategy?
- Has the company analysed the physical climate risks to its assets, operations and value chain, including potential financial impacts, and evidenced measures to mitigate or adapt to them?



## Targets

- Does the company have targets to switch to 100% renewable energy and low carbon transportation across its operations and supply chain?
- Does the company have targets to grow production of / revenue from low-carbon garments?
- Does the company have targets to optimise its water usage and to improve material circularity?



## Collaboration

- How is the company working collaboratively across its value chain to reduce emissions (e.g. customers, suppliers, strategic R&D partnerships, sector initiatives etc)?
- Is the company advocating meaningful policy action, including from regulators, to meet global net-zero targets (e.g. carbon pricing)?



## Red lines

- Does the company disclose its material scope 3 emissions?
- Does the company have a public comprehensive zero-deforestation policy including no-land-conversion principles, covering material commodities?
- Does the company disclose its climate-related lobbying/advocacy activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

1. Quantis (2018).

2. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance.

3. Short-term refers to 2022-2025, medium-term 2026-2035 and long-term 2036-2050.

4. E.g., energy efficiency and a shift to renewable energy, smart approaches for fibre and fabric recycling, maximise material efficiency and minimise production/ manufacturing waste through innovations in design and cutting processes, offer repair and refurbishment service, source from organic/regenerative producers.

## Further areas for company consideration

### Nature expectations

**Why?** The climate and nature crises are inextricably linked.<sup>5</sup> Climate change is one of the five direct drivers of nature change. Net-zero requires both emission avoidance and sequestration. Therefore, the inter-dependencies between climate and nature are a critical factor in the transition.

**LGIM’s expectations:** As part of a climate transition plan, companies should integrate an assessment of the related nature risks and opportunities, impacts and dependencies, and appropriate mitigation actions.<sup>6</sup>

**Sector-specific considerations:** A direct impact could result from material preparation and processing (water pollution from dyeing). Indirectly – through raw material production (cotton agriculture) and end of life treatment (waste disposal and microplastics).

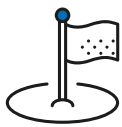


### Company levers

- Circularity / Recycling
- Low-carbon materials and logistics
- Energy efficiency
- Deployment of renewables to power operations

### Government policies

- Carbon pricing
- Increased roll-out of renewables, particularly in emerging markets
- Low-cost financing for energy efficiency measures
- Waste, recycling and energy use standards for apparel and other consumer goods (e.g. washing machines)
- Supply chain certifications
- Policies to eliminate deforestation from the supply chain



#### Challenges

Consumer behaviour and growth of global middle class  
Lack of low-carbon electricity and heat  
Competitive market and fragmented supply chain  
Traceability of materials



#### Opportunities

Growing consumer demand for sustainable fashion  
Sustainable organic material production  
Improved brand image and reduced reputational risk through better supply chain management



#### What is needed?

Company leadership	Research and innovation	Consumer behaviour
Investments to tackle emissions across the entire value chain Commitment to alternative materials	Circular business models (with regenerative materials, material efficiency, recycling)	Shift away from ‘fast fashion’

5. UN IPCC-IPEBS, [Biodiversity and Climate Change workshop report \(2021\)](#)

6. [LGIM’s Nature Framework can be accessed here](#)

## Sources of emissions



### 'Scope 3' Upstream

**Indirect** GHG emissions from a company's supply chain (e.g. cultivation, production, dyeing and finishing of raw materials)



### 'Scope 1'

**Direct** GHG emissions from owned and operated retail and distribution facilities



### 'Scope 2'

**Indirect** GHG emissions from purchased energy



### 'Scope 3' Downstream

Other **indirect** GHG emissions from transport, use and disposal of products (e.g. washing, drying, recycling, incinerating)

Source: UNEP (2019).

## 'Just Transition' considerations

Potential implications for employees, supply chain, customers and communities from the transition to a lower-carbon business model.

Manufacturing efficiencies and reduced demand for fast fashion can result in unemployment

## Physical risk impacts

Disruption to supply chain and production

Water scarcity



## For more information and to see how companies are rated

[LGIM Climate Impact Pledge score](#)

[LGIM Climate Impact Pledge](#)

### Important information

**Source: LGIM as at October 2024. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, and the investor may get back less than the original amount invested. The above information does not constitute a recommendation to buy or sell any security.**

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