

H&M Group's position on Circular Economy – January 2020

H&M Group's contribution to the European Commission's New Circular Economy Action Plan.

At H&M Group, we welcome the European Commission's initiative to launch a new Circular Economy Action Plan in 2020, and its call for a deep transformation of the industry in general. We also welcome the European Parliament's resolution on the European Green Deal 2019/2956(RSP) calling for an 'ambitious new circular economy action plan'.

We support the holistic approach taken by the Commission integrating the circular economy in the European Green Deal. We believe it will ensure greater synergies between the circular economy and climate action, as well as with biodiversity protection – two key priorities for which the circular economy can accelerate achieving the European goals. We are convinced that transparency can empower customers to make sustainable choices for the environment, people and communities.

With global demand rapidly outstripping supply, the fashion industry cannot continue to operate as it has in the past. At H&M Group, we believe that an industry-wide shift from a linear to a circular business model is the only solution. Hence, we support the focus of the new Circular Economy Action Plan on the textile industry with the hope this will accelerate its shift in a scalable and harmonized approach at EU level, while allowing a smart mix of measures.

We would like to seize this opportunity of dialogue with the Commission to insist on the need to address some of the barriers to circular economy. To establish successful concrete measures in the textile industry, we urge the Commission to continue their open dialogue in the coming months through public consultations and a thorough impact assessment.

H&M Group's vision to become 100% circular

As one of the world's largest fashion retailers, H&M Group has the potential to fundamentally shift the extent to which the clothing sector restores and regenerates fabrics and fibres for productive use.

We need new ways of producing and consuming products. We need to become circular, as well as ensuring that products last for as long as possible and are re-used, many times over. For the sake of the environment and the climate, it is both a necessity and a matter of urgency that we change the ways in which we design, manufacture/produce and engage with goods, although this also presents us with many new opportunities.

We are approaching our ambition holistically by building circularity into every stage of the value chain: design, materials, processes used, products as well as how customers care for and dispose of their products. This is translated into concrete objectives¹ applicable to circular design, material sourcing, production processes, garment collection, reuse and recycling.

Our approach reflects the key concepts highlighted in the European New Circular Economy Action Plan.



¹ H&M Sustainability Report outlines the details of our vision towards 100% circular. You can consult the latest report H&M group website: <https://sustainability.hm.com>

Stage A: Circular Design For A Sustainable Products Policy

- The future products policy shall support the **principles of circular design and design for purpose**. Both principles will influence designers and developers in reducing product environmental impacts by thinking of:
 - With the purpose of use, designers and developers take into account the consumer value of the product and so its longevity, durability, quality and recyclability;
 - The best design choices to implement the waste hierarchy by ensuring reparability, reuse and recyclability from the very beginning;
 - The production processes, including safe chemical inputs and outputs.
- We urge the Commission to **integrate the principles of circular design and design for purpose, together with the respect of the waste hierarchy, in the future sustainable products policy**.
- **The product policy framework shall be flexible enough to adapt itself to future innovations which will influence the definition of 'sustainable products' in the coming years.**

Stage B: Develop EU Market For Secondary Raw Materials: A Prerequisite

- A successful EU market for secondary raw materials should increase the affordability, quality, performance and safety of secondary raw materials. It will also contribute to the European Union's climate goals given the predominant share of raw materials in the total CO2 emissions of the textile industry. We estimate that raw materials represent about 9% of our total CO2 emissions. We also estimate that using recycled materials will reduce significantly this percentage – e.g. recycled polyester reduced CO2 emissions by 72% compared to conventional polyester, and recycled cotton by 82% compared to conventional cotton.
- It shall hence require to:
 - **Incentivise the use of secondary raw materials** by making them financially viable in comparison to virgin raw materials;
 - **Dedicate research and funding** to ensuring that secondary raw materials are of sufficiently **high quality for use (performance, safety, durability)**;
 - **Invest in chemical recycling technologies**. Non-toxic/chemicals in secondary raw material is important to control and test, especially when it goes to mechanical recycling. In 2019, H&M Group and IKEA have joined forces to conduct a large-scale study, reviewing chemical content in post-consumer textile recycling². We see that ideally this should be taken care of when the material is produced the first time. **Under development chemical recycling technologies of textiles-to-textiles will bring greater potential to remove chemical impurities and to recycle blended materials, which today not possible with mechanical recycling.**

Stage C: Embed circular economy in the textile supply chain

- For the past decade the textile and footwear industry has been developing tools to manage its global supply chain taking into account both environmental and social impacts: the Higg Index³. This suite of tools supports brands, retailers and manufacturers to integrate sustainability and circular economy into their daily activities.
 - **H&M Group recommends the Commission to take into account the Higg Index suite of tools** under the textile initiative especially the Higg Brand and Retailer Module, The Higg Facility Environmental Module, as well as the Higg Transparency efforts. The European Parliament recognized the Higg Index added value in its resolution on the EU Garment Initiative⁴.
- To ensure a clean pipeline from the production down to the recycling phase, the textile industry has been developing tools dedicated to the monitoring of chemicals use at production.
 - **H&M Group recommends the Commission to recognise the industry initiative ZDHC⁵**, with the goal of protecting the planet by reducing industry's chemical footprint.

² Results of this joint study will be published end January 2020. Further information is available on H&M Group's website: <https://hmgroupp.com/media/news/general-news-2019/HMGroup-IKEA-collaborates-recycled-textiles.html>

³ The Higg Index is a suite of assessment tools that empower brands, retailers, and manufacturers to measure their environmental as well as social and labor impacts at every stage of the lifecycle and value chain, and then share those measurements in a credible way through verification and pave the way for industry transparency. More information: <https://apparelcoalition.org/the-higg-index>

⁴ Resolution P8_TA(2017)0196: https://www.europarl.europa.eu/doceo/document/TA-8-2017-0196_EN.pdf

⁵ <https://www.roadmaptozero.com>

- The industry expects the Product Environmental Footprint (PEF) initiative to become a tool supporting the implementation of the sustainable products policy. H&M Group is participating in the textile industry to define a relevant PEF methodology for the sector.
 - We welcome the opportunity to define the PEF methodology – and future communication framework - together with the Commission and the NGO community. In this matter, **we support a step-by-step approach to guarantee a successful and scalable industry PEF tool:**
 - Define the final use case of the PEF methodology;
 - Develop a simplified and flexible LCA approach to promote a widespread adoption in the industry and help customer communication to the relevant level of information;
 - Develop a detailed LCA approach could still be used by industry leaders with LCA experts for internal product performance purposes.
 - **The PEF methodology shall drive positive impacts at customer communication level:** communicating the relevant information to drive conscious purchasing habits.
- For the past decade the textile and footwear industry has been developing tools to manage its global supply chain taking into account both environmental and social impacts: the Higg Index. This suite of tools supports brands, retailers and manufacturers to integrate sustainability and circular economy into their daily activities.

Stage D: Consumption - Provide the right tools and business models to empower customers to make sustainable choices

- **Transparency, through trustworthy, harmonized and clear information, can empower customers to make sustainable choices for the environment, people and communities.**
 - At H&M Group we are walking the talk. Our brands H&M, H&M Home and ARKET now share details such as production country, supplier names, factory names and addresses as well as the number of workers in the factories. In addition, customers can find out more about the materials used to make a specific garment and care instructions. By sharing extended details on where our garments are made, we make it easier for customers to make more informed choices when shopping.
- **We aim at ensuring a scalable tool for the whole industry, providing relevant information from a customer perspective in an accessible way, with the Higg Index Transparency effort.** To enable informed customer choices will lead to positive sustainability impacts in supply chain, design and consumer habits.
 - To ensure a global outreach and a long-term change, a common measurement for all apparel and footwear products is needed to allow customers to compare in a consumer friendly and accessible way. Such measurement methodology, and its related communication vehicle, shall be scalable and usable by all types of companies and in all sub-sectors of the apparel and footwear industry to ensure the possibility for widespread adoption and comparability for customers.
- **New business models** will support the industry better implementing the waste hierarchy through for example offering repair and reuse services. Our brands H&M and COS offer rental services respectively in Stockholm and China since 2019. Our newest brand Afound, launched in 2018, with the mission of giving unsold products a new life. We also invest in start-up companies focusing on circular economy: since 2015, H&M Group has been investing in Sellpy - a re-commerce platform with great potential in expanding its current offer into a complete platform for second-hand fashion.
 - **The New Circular Economy Action Plan shall incentivize financially such business models. Following this approach, H&M Group supports the Swedish VAT system on repair and reuse businesses.**

Stage E: Needs to secure a successful EU waste management system and enable global circular material flows

- **Recycled material: innovation and incentives to enhance their availability and quality.** In 2019, we collected 29,000 tonnes of textiles for reuse and recycling through our garment collecting initiative:
 - Most of the collected textiles are sorted for re-wear or reuse (50-60% of collected items) or recycled to become products for other industries or into new textile fibres (35-45%)
 - **About 1%, a very small share of the recyclable textiles, is also recycled into new textile fibres and yarns for our closed loop collections.**

- The remaining 3–7%* that can't be reused or recycled are used as combustibles for energy production. Sending textiles to landfill is not an option.
 - **This situation is due to the lack of available sorting and recycling technologies and the need to scale up the existing ones, as well as to the lack of infrastructure along the way.** The sorting and secondary market is built up for a linear model.
 - This is something we want to change and dramatically increase through investing and engaging in solutions for scalable recycling technologies available for all types of textile fibres and blends, with our value chain partners, academia⁶, and through H&M Foundation's Global Challenge Award.
 - **We call on Horizon Europe future to fund recycling research and innovation projects to get started and scale up.**
 - **Until the industry has scalable recycling technologies, it would be difficult to implement absolute requirements on recycled materials. The expected minimum requirements on recycled materials shall reflect the reality which the industry is facing today and in the near future.** From the development of new technologies until they are applicable full scale, it can take about 10 years. We learnt it by experience: one dedicated team scouts all new materials and support companies developing them to reach industry scale. This collaboration between R&D and industry is key and shall be supported.
- **Establish a European harmonised waste management system supporting the textile industry best practices.**
 - It is of importance to allow brands and retailers to establish in-store garment collection schemes with their own recycling value chain.
 - **The waste management system, through EPR, shall also incentivise and reward best practices to drive positive impacts on the ground** – e.g. incentivising circular design through eco-modularity.
 - It is also of importance to define the 'ownership' of waste once the garments are collected. In some national requirements, waste is owned by municipality and that is causing some challenges for brands and retailers to run their own collection and recycling schemes. **The harmonised scheme shall avoid the situation of monopoly of waste ownership – against the EU trade principles.**
 - **We call on the Commission to review the current definition of waste and end-of-waste criteria-** so secondary raw materials can be recognized as resources and no waste, as currently under the Waste Directive.
 - **The Commission should consider the reclassification of post-consumer textile waste as resources.** Today we encounter challenges with 1. the handling and 2. trade barriers because of the classification as waste. A reclassification would ease the handling, trading, cross-border circulation, in a country, within the EU and outside of the EU. It is important to allow circular material flows beyond the EU market and thus recognise the global value chain of the industry.

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H & M Hennes & Mauritz AB (publ) was founded in Sweden in 1947 and is quoted on Nasdaq Stockholm. H&M's business idea is to offer fashion and quality at the best price in a sustainable way. In addition to H&M, the group includes the brands COS, Monki, Weekday, & Other Stories, H&M Home and ARKET as well as Afound. The H&M group has 51 online markets and more than 5,000 stores in 74 markets, including franchise markets. In 2019, net sales were SEK 232 billion. For further information, visit hmgroup.com

⁶ <https://hmfoundation.com/recycling-revolution>