

# H&M Group's view on scaling circular business models enabling product use extension and waste prevention

## October 2022

Preventing waste generation through scaling reuse and repair models, will be focal to optimize resource use, and help the shift towards circular economy at the pace needed to achieve net-zero emissions and have a net positive impact on biodiversity.

The anticipated revision of the **EU Waste Framework Directive (WFD)**, amongst others, **is an opportunity to support the scaling of circular business models through policy**. Although an opportunity, the WFD cannot alone scale circular business models and **a combination of several policy measuring will be focal**:

- **Adopting reduced or removing VAT on second-hand resale incentivising reuse and repair will be critical;**
- Adopting complimentary measures to the EU Waste Framework Directive to better support resale of reusable garments both *before* they become waste and *when* become waste;
- Further supporting measures are: enabling access to data of products in the Digital Product Passport and standardising measuring of environmental impact of new vs reused products.

### **H&M Group's commitment to scaling circular business models**

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As a large fashion retailer, **H&M Group is envisioning to provide convenient services to access and engage in circular fashion where products are repaired, used more and for longer** by multiple users before being recycled. This means new ways to design, access and enjoy fashion that ensure that products circulate and are kept in use for as long as possible before being repurposed or recycled again and again. Convenience in service will be key: mirroring the ease and attractiveness of a virgin purchase to meet the customer where they are and reduce the hurdles of buying second-hand first.

To meet our ambitious climate goals<sup>1</sup>, H&M Group is committed to reduce the bulk of resources used alongside optimising product design<sup>2</sup>, material choices and investing in production with renewable energy. We prioritise increased usage and prolonging the life of garments through investing in customer facing circular business models<sup>3</sup>. **H&M Group sees reuse and repair models as key for the future, both to achieve our climate goals, but also to offer access to affordable sustainable fashion options for all.** Product extension models also hold great job creation opportunities in the EU (e.g. through repair and manual sorting of used garments).

A wide array of circular business models exists. **H&M Group uses definitions of differing circular business models** in line with the Ellen MacArthur Foundation principles. H&M Group is exploring all three of them: **repair, reuse and remake**.<sup>4</sup>

Within those categories of circular business models, many variants exist, and more are explored by the industry. For instance, within 'reuse' models, second-hand resale is the most common, but also rental and subscription and leasing models could be included, even though the positive environmental impact is less certain.

**Today these circular business models are challenging to scale as many of them are not profitable yet. To accelerate these opportunities further, there is a need for policy incentives.**

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<sup>1</sup> As a part of H&M group's sustainability work, we have set ourselves the goal to **cut 56% emissions by 2030** (compared to a 2019 baseline) and **achieve net-zero emission by 2040** through balancing residual emissions with carbon removals. These targets are approved by the Science Based Target Initiative: [sciencebasedtargets.org](https://sciencebasedtargets.org)

<sup>2</sup> H&M Group, Circular Design Guideline 'Circulator' <https://hmgroup.com/news/hm-group-launches-circular-design-tool-circulator/>

<sup>3</sup> H&M Group, Circular Business Models, <https://hmgroup.com/sustainability/circular-and-climate-positive/circularity/circular-business-models/>

<sup>4</sup> H&M Group <https://hmgroup.com/sustainability/circular-and-climate-positive/recycling/>

## Tackling premature disposal in the fashion industry by scaling reuse/second-hand resale models

To better understand how reuse models can be scaled in the fashion industry, it is **focal to understand why consumers choose to not use a garment anymore**. Customer behavior is a core driver within the fashion industry. A product's usage is not limited solely to the technical durability of the garment, fashion is much more than functionality. Fashion is to a large extent related to an ever-changing customer need (i.e. size, fit, taste/trend, season). This often leads to premature disposal of products. In most cases consumers do not stop using a garment because it is broken<sup>5</sup> and at present there is no system to tackle such premature disposal.

**To address premature disposal, we believe scaling second-hand resale models hold large potential:**

- **Reuse/second-hand products can cater for the customer's need of a new product** (style, fit, season), which is a key element of fashion. Given the customer purchase preferences for 'newness', H&M Group believes that conveniently accessible reuse models could drive the largest positive shift in mainstreaming product use extension. **Policy must support the shift to increased offering and scaling of reuse/second-hand models** which increase use through multiple users to balance virgin production.

**Better understanding the demand for what type of products are desired for reuse will be key for success:**

- H&M Group sees exceptional value in **supporting resale models that recirculate and capture the value before used garment have become waste**<sup>6</sup>. Today there is no common understanding of what 'reusable' garments are in EU legislation. Regulating what is reusable and attractive for a next customer is highly challenging given the subjective nature of deciding such.
- In this context, models where **customers directly sell used products to other customers** (customer-to-customer models), with or without the support of a business-to-customer layer (facilitator)<sup>7</sup> have an **enormous benefit in better guaranteeing that the used products put on the market are truly sought after by customers**. This helps used garments circulating at the highest value multiple times before it ends up in the waste bin.

**Policy should recognise the opportunity to incentivise reuse and product extension options at the highest level in the waste hierarchy.**

## The challenges for scaling reuse/second-hand models – low profitability

Although the industry is investing significant resources in exploring and developing a large range of different second-hand fashion services, they unfortunately **do not scale as fast and broadly as needed to decouple environmental impact and resource use from revenues**. Today, such models still face significant barriers to fully reach their potential. The main barriers today, can be summarised in a few points:

- **Challenging profitability:** Today circular business models are commercially difficult to establish as the margins when selling reused products are considered too low. These models have high requirements of labour (e.g. manual sorting, repair etc), which is costly. Sorting collected garments for reuse is a highly manual task and requires trained staff.
- **Current EU Waste Framework Directive does not support reuse/second-hand:** The definition of waste in EU legislation today does not support a circular fashion system, especially the recirculation of reusable garments where we need to incentivize keeping the resources at their highest value. It is thus key to both limit what ends up in the bin in the first place i.e. is reused through circular business models, but also recognise that the used garments that do end up in

<sup>5</sup> See Annex in position paper outlining existing consumer research on reasons for garment disposal

<sup>6</sup> In line with the 'waste' and 'waste prevention' definitions in Article 3 of the Waste Framework Directive.

<sup>7</sup> An online platform and/or physical infrastructure that services both buyers and sellers by connecting them together and building features that increase the ease of making transactions E.g. taking pictures, pricing, listing e.g. the second-hand resell platform [Sellpy](#)

separate collection points, often still are reusable or recyclable. What ends up in the bin (separately collected), is not an indication of it not being fit for reuse anymore. In this context today's 'waste' definition and 'prepare for reuse' is highly limiting for enabling circularity and scaling reuse/second-hand resale models.

- **Lacking digital data on product level:** Today digital product information is not yet standardised and available on garments for everyone to use in a convenient way. In second-hand business models this means that basic information such as size, colour, composition, and brand must be manually added to online data systems that intend to resell second-hand products. This is inefficient and causes valuable time and profitability loss when putting used garments for resale – especially for online resale platforms.
- **Limited customer transparency and clarity of positive impact:** Customers want to understand the impact of their purchases. Today there is no standardised way of measuring CO2 impact or resource replacement factors of transactions from reuse and repair models compared to new products. Therefore, clear customer communication and claims are a challenge.

### **Our policy recommendations to scale reuse and product use extension models**

Extending product use is a key part of tackling the problem with premature disposal and waste in the textile sector. However, to properly scale such circular business models, **adopting economic incentives to scale reuse/second-hand in the EU and Member States, will be critical.**

A combination of several policy measures will need to be put in place to be successful:

#### **Critical measures that are needed today:**

- **Adopting reduced or remove VAT on second-hand sales incentivising reuse and repair models:**
  - It is critical to reward companies that increase their share in second-hand offer through resale by for instance prioritising reduced VAT on selling second-hand garments and repair services. Today some VAT reduction options already exist such as margin schemes for second hand goods<sup>8</sup>. These are good options but are administratively heavy to operate. The optimal policy support would be to remove VAT on second-hand goods in full and enable such across the whole of the EU. This should become applicable for both reuse models, but also in cases of resale after 'prepare for reuse'.

#### **Supporting measures that can support reuse models in the medium term:**

- **Adopting complimentary measures to the EU Waste Framework Directive to better support resale of reusable garments both *before* they become waste and when having become waste:**
  - *Before products have become waste:* Incentivize reuse and repair models to tackle premature disposal before products have ended up in the bin – through reduced VAT as stated above.
  - *When products have become waste:* When used textiles have ended up in the bin, and are likely handled under EPR schemes, 'prepare for reuse' garments should not be subject to double EPR fees. This would discourage incentivising reuse. In addition, VAT reduction should also be applicable for prepare for reuse resale, to truly incentivise resale.
  - In addition, there is still a lack of conveniently accessible infrastructure for collection for reuse (or recycling) across the EU. We are eager for this to evolve through the upcoming obligation for separate collection of textile waste across the EU as of 2025. In this regard, we recommend the EU to incentivize and support the development of a harmonised collection, sorting, reuse and recycling industry for textiles in the EU.
  - Finally, there is a need to ensure high-quality sorting guidelines for used garments aligned with the waste hierarchy and auditing of sorting operators to comply with such guidelines. This is key to guarantee that only reusable garments in sufficient condition are sold for reuse again.

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<sup>8</sup> VAT Directive: [https://taxation-customs.ec.europa.eu/special-schemes\\_en](https://taxation-customs.ec.europa.eu/special-schemes_en)

- **Enabling access to data of products in the Digital Product Passport:**
  - Incentivize access to digital product information (the more automatized product information is accessible, the more efficient, automated and financially attractive the system can be), is key for reuse and repair models. Data can accelerate the automation of resale of second-hand, and by that decrease both consumer hurdles and the operational costs for a business. Data that should become available on a digital ID/Digital Product Passport (DPP) is: composition, production location, size, colour, pictures of garment. It must also be an option for the resale platform to add further information to the DPP e.g. the condition of garment.
- **Standardising measuring of environmental impact of new and reused products:**
  - To better understand, communicate, disclose and compare the environmental benefits of reuse/second-hand, it is key to find an aligned method to measure environmental footprint of *reused products vs virgin products*.

### Designing policy measures fit for the right purpose

The ongoing Waste Framework Directive developments anticipated to regulate Extended Producer Responsibility obligations on the textile sector. **H&M group very much welcomes the intention to mandate and harmonise EPR for textiles at EU level.** However, as EPR schemes are an end-of-life tool and as such EPR financing should be prioritised towards sorting for reuse and recycling, not towards enabling reuse and waste prevention. The above policy recommendations are outlining how waste prevention and product use extension can be incentivised *before* it has become waste. H&M Group sees that EPR can help financing of the transition of setting up **collection, sorting for reuse and sorting for recycling infrastructures in the EU.** In this context, H&M Group fully endorses the Policy Hub – Circularity for Apparel and Footwear position on these topics: [accessible here](#).

**Finally, measures should, where possible, be considered and adopted at EU level. Fragmentation of rules will make the scaling up of reuse/second-hand resale more challenging and should be avoided.**

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H&M Group        

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H & M Hennes & Mauritz AB 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 54 online markets and approximately 4,800 stores in 75 markets including franchise markets. In 2021, net sales were SEK 199 billion. The number of employees amounts to approximately 155,000. For further information, visit [hmgroup.com](http://hmgroup.com).

## ANNEX – Understanding disposal reasons of garments

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Clothing is discarded for many reasons. The fabric may be torn, stained, showing signs of wear, it may shrink or become faded over time, and all these things associated with “Intrinsic Quality” can cause consumers to dispose of the garment. However, the reason for disposal might not be associated with product failure, but because the item no longer fits or because it is no longer wanted/needed. Consumers’ sense of style may mature, change or their taste may be altered with changing fashion trends. This behaviour is confirmed in a review of studies from a range of countries (see reference list below). The below body of work, assessing reasons for garment disposal, concludes that ‘Intrinsic quality’ is the disposal reason in 34.1% of the cases, ‘poor fit’ in 25.8% of the cases and ‘lack of perceived value’ would be the disposal reason in 31.4% of the cases.

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