

Valuing Water Finance Initiative Benchmark

Apparel Industry

Key Industry Findings

The following section presents industry-specific highlights and areas for improvement related to the six [Corporate Expectations for Valuing Water](#). Examples of leading company practices are provided throughout. Companies should leverage these insights in conjunction with the [12 key findings](#) to refine and enhance their corporate water stewardship strategies. By evaluating both strengths and weaknesses within their industry, companies can pinpoint the necessary steps to address a range of water-related issues as specified in the six Corporate Expectations for Valuing Water. The [methodology](#) and [downloadable spreadsheet](#) serve as invaluable tools for a deeper dive into individual company performance and the identification of areas demanding further action. Using these resources, companies can not only drive impactful change but also lead the way in responsible and sustainable water management practices, benefiting both their businesses and the global community.

Water Risk in the Apparel Industry

The apparel industry is water-intensive and extremely polluting to freshwater resources throughout its value chain. From the cultivation and extraction of raw materials (such as cotton and other natural fibers) at the farm level, to the processing and manufacturing of materials (including leather tanning and the processing and dyeing of fibers), through to the consumer end of product use and washing, impacts to water availability and quality occur at every stage of the value chain. A recent survey of over 75,000 apparel and textile sites projected that more than 7,000 sites will face extreme risk of water scarcity by 2050, while 64% of the sites face above medium flooding risk. In addition, [three out of every four apparel and textile industry suppliers face water quality risks](#), including increased costs to manage pollution and ecosystem degradation. A recent Ceres report estimated that the annual cost to address water-related externalities and reduce value-at-risk for certain companies within the apparel industry would require approximate [total annual expenditures ranging from \\$189.8 million to \\$1.77 billion](#).

Overall Industry Performance

Notable Highlights

- **Inclusion of assembly and manufacturing suppliers in water stewardship strategies:** Apparel companies, such as **adidas**, **H&M**, and **Levi's**, are engaging with their assembly and manufacturing suppliers to track and report water data (including withdrawals, consumption, discharges, and water risks). Companies are using platforms, such as the Higg Facility Environmental Module (Higg FEM) created by the Sustainable Apparel Coalition (SAC), to set more informed water reduction targets and customize water stewardship strategies within the supply chain.
- **Actions to reduce impacts on water quality:** Many apparel companies assessed are working to reduce their impact on water quality through improved wastewater treatment, working towards zero discharge of hazardous chemicals in the supply chain, setting targets related to standards set by Zero Discharge of Hazardous Chemicals (ZDHC), and establishing expectations for suppliers to comply with industry guidelines on wastewater, pollutants, and chemical usage. These guidelines include the Apparel and Footwear International RSL Management (AFIRM) Group Restricted Substances List (RSL), the ZDHC Manufacturing Restricted Substances List (MRSL), and the ZDHC Wastewater Guidelines. In addition, some companies are enforcing their own standards and offering capacity building initiatives and resources to increase awareness and knowledge about promoting sustainable chemistry among their suppliers.
- **Platforms for collaboration and knowledge exchange:** Companies are developing industry-wide water stewardship partnerships, such as the Textile Exchange, the Fashion Pact, the SAC, the Leather Working Group (LWG), Better Cotton Initiative (BCI), ZDHC, and AFIRM. These collaborative efforts facilitate the establishment of best practices and guidelines including the Clean by Design program, the Apparel Impact Institute, the U.S. Cotton Trust Protocol, and the Higg Materials Sustainability Index (Higg MSI).

Areas for Improvement

- **Exclusion of raw material suppliers in water-related targets:** Many apparel companies primarily concentrate their supply chain water-related targets on assembly and manufacturing suppliers, frequently overlooking raw material suppliers like cotton growers. While these businesses recognize the water-intensive nature of raw materials and incorporate raw material suppliers into their sustainable sourcing strategies and larger supplier engagement, none of them encompass raw material suppliers in their water quantity and quality-related targets.
- **Ecosystem restoration targets lacking:** None of the apparel companies assessed have set time-bound ecosystem conservation or restoration targets to ensure they do not contribute to the conversion and further degradation of natural ecosystems critical to freshwater suppliers and aquatic biodiversity. While some of their sustainable sourcing commitments, sourcing policies, and supplier engagement programs help address ecosystem impacts, the absence of comprehensive time-bound targets in this regard is notable.

- Access to water and sanitation (WASH) targets and policies lacking:** Only 27% of apparel companies assessed acknowledge the human right to water and sanitation in a corporate policy. Additionally, only three companies have set time-bound WASH targets for their suppliers and the communities they operate in. This highlights the need for the industry to prioritize and address WASH issues more comprehensively throughout its supply chains and the communities around them.

Detailed Industry Performance

Across the six Corporate Expectations, apparel companies performed best on the **Board Oversight** Expectation, with a median score of nine (out of 15 total available points) and worst on the **Access to Water and Sanitation** and **Public Policy Engagement** Expectations, with a median of two (Figure 1). Of the 11 apparel companies assessed, the average industry score was **30.1 out of 90** total points (Figure 2).

Figure 1 · Apparel Industry Performance across the Corporate Expectations

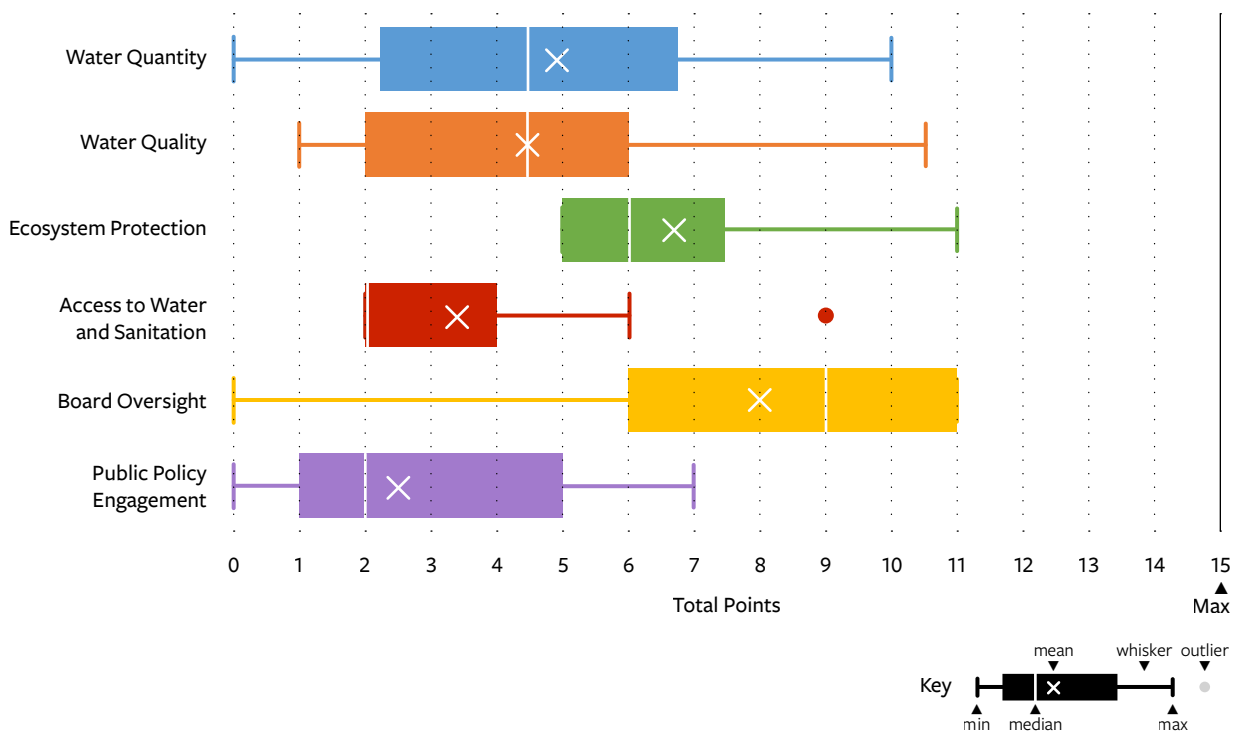
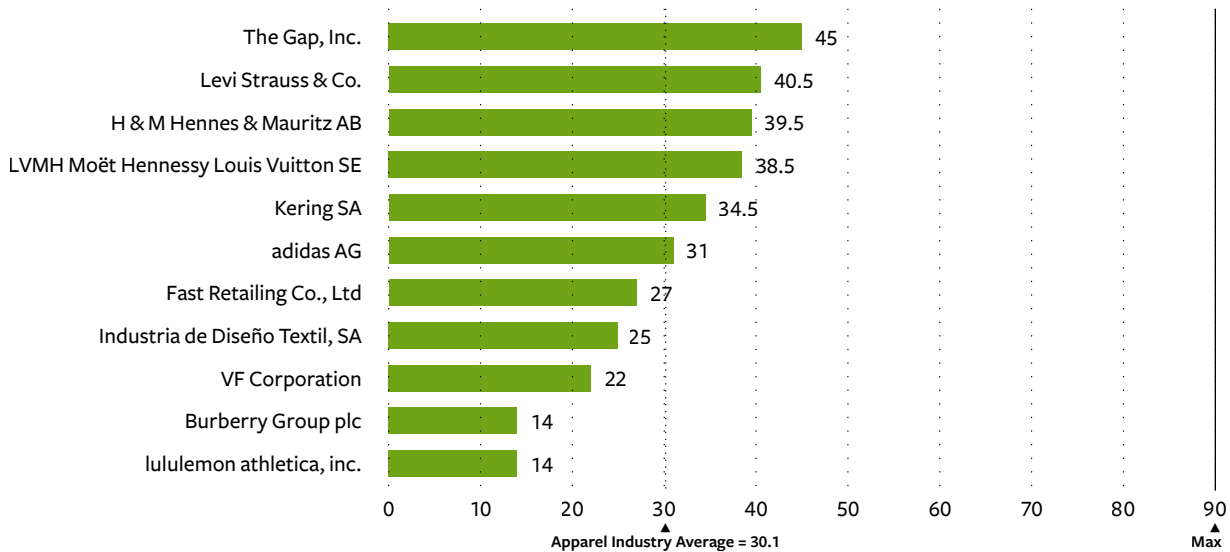


Figure 2 • Breakdown of Company Performance (Total Points Scored)



Detailed Apparel Company Performance

Water Quantity

Of the apparel companies assessed, 73% (8 out of 11) have set targets to address water availability largely focusing on “water efficiency,” “water intensity,” “consumption reduction,” or “water recycling.” Of these eight companies, three have established contextual targets (**H&M**, **Levi’s**, and **Gap**). For example, **Gap** has committed to achieving net positive water impact in water stressed regions by 2050 and has set an interim goal to reduce water use and replenish water equivalent to the volume of water used in both manufacturing and in its owned and operated facilities by 2030. Additionally, through its Water Strategy 2030, **H&M** has set supply chain goals to reduce water withdrawals compared to its 2022 baseline, including a 10% reduction in all basins by 2025, a 20% reduction in medium to high-risk basins by 2027, and a 30% reduction in medium to high-risk basins by 2029. Additionally, **H&M** stands out as being the only company to state its intent to expand its target scope beyond assembly and manufacturing facilities to cover other water-intensive parts of its value chain, such as fiber production and customer use phase through its 2030 Water Strategy.

Five companies (45%) (**adidas**, **Fast Retailing**, **Inditex**, **lululemon**, and **LVMH**) have set non-contextual, time-bound targets to address water quantity. **Adidas**, for example, aims to achieve 15% water consumption reduction in its own facilities (including offices and distribution centers) and a 40% reduction in water intensity for its material suppliers by 2025 against their 2017 baseline.

In terms of disclosure on volumes of water withdrawn and consumed, 64% of apparel companies (7 out of 11) do not provide this information for their direct operations or supply chains. Nevertheless, some companies are making efforts to collect supply level data. For instance, **Levi’s** has developed a sustainability guidebook for its key vendor suppliers mandating them to monitor and report water consumption using the Higg Index Facility Environment Module questionnaire.

Water Quality

Of the seven apparel companies (64%) that have established water quality targets for direct operations and/or some of their supply chain, only H&M and Gap have set context-based targets including their supply chains. For example, **H&M** aims to ensure that by 2030 all wastewater within

its supply chain will be treated in a manner that does not adversely affect the receiving water body due to effluent discharges. To meet this goal, the company has set interim targets guided by the ZDHC Wastewater Guidelines including, that facilities in medium - to high-risk basins will meet prioritized ZDHC “Conventional Parameters—Progressive Level” by 2027 and, facilities in high-risk basins will meet prioritized ZDHC “Conventional Parameters - Aspirational Level” by 2029.

The ZDHC guidelines are a set of globally unified expectations across the textile, leather, and footwear industry, which set limits for wastewater that follow a three-level approach to promote continuous improvement. The limits become stricter as they progress from Foundational, Progressive, to Aspirational levels.

Five apparel companies (45%) have set non-contextual, time-bound targets to address impacts on water quality in direct operations and/or parts of their supply chains. Many of these targets are related to achieving standards set by ZDHC. For example, **adidas** aims to have 80% of its supplier facilities achieve the highest level of compliance (Level 3) with the ZDHC’s Manufacturing Restricted Substances List for 80% of its input chemicals by 2025. In addition, the company aims to have the “cleanest supply base” by 2025, committing to ensure 80% of suppliers that operate on-site effluent treatment plants achieve ZDHC Wastewater Foundational Level.

To achieve their water quality targets, company strategies focus on engaging suppliers, including supplier expectations to comply with industry guidelines, such as AFIRM RSL, the ZDHC MRSL, and the ZDHC Wastewater Guidelines. For instance, **Burberry** has created an adoption framework for the implementation of the ZDHC MRSL in operations that details the chemical restrictions applicable to any finished product or raw material supplied directly or indirectly to them. Other companies are enforcing their own standards. For instance, **lululemon** has developed its own restricted substances list, which contains substances that are banned or restricted from company products in alignment with AFIRM RSL standards.

Regarding supplier engagement, **adidas** engages with key suppliers and chemical manufacturers through capacity building initiatives aimed at increasing awareness and knowledge of sustainable chemistry practices. To support facilities in continuously improving the quality of their wastewater discharge, the company has developed an Effluent Treatment Plant (ETP) evaluation tool to help wastewater treatment plants meet ZDHC Foundational guidelines. Furthermore, **Gap** is working to



expand its Water Quality Program (WQP), which monitors and enhances chemicals management and wastewater quality at denim laundries, to encompass all raw material wet processing facilities by 2024.

More than half of apparel companies (64% or 7 out of 11) disclose wastewater discharge data for at least part of their direct operations or supply chains. Additionally, 73% of companies (8 out of 11) are disclosing industry pollutants of concern, including how they were identified, and the process for setting their own company specific pollutant discharge limits. The common pollutants of concern reported by apparel companies include perfluorinated compounds (PFCs), volatile organic compounds, and microfibers.

Ecosystem Protection

Targets

None of the apparel companies assessed have set targets to protect or restore ecosystems critical to freshwater supplies and aquatic biodiversity. Only **H&M** and **LVMH** participate in initiatives that are specifically aimed at protecting or restoring freshwater ecosystems. For example, **LVMH** has partnered with UNESCO on a project in the Amazon basin to combat the causes of water pollution and deforestation.

Sustainable Sourcing

Notably, apparel is the only industry assessed that had 100% of companies setting sustainable sourcing commitments, policies, and supplier engagements related to the protection of ecosystems. For example, **lululemon**

has a target to achieve a minimum of 75% sustainably sourced materials for its products by 2025. The company has set several underlying targets to reach its overall commitment, including, creating alternatives to nylon by 2025, sourcing 75% recycled polyester by 2025, and obtaining 100% of its cotton through more sustainable supplies by 2025.

Moreover, many apparel companies are relying on third-party certifications for sustainable sourcing such as the LWG, Certified Organic Cotton, Global Organic Textile Standard (GOTS), Responsible Down Standard, and FSC. It is worth noting that 73% of apparel companies (eight out of 11) are members of BCI, which is a multi-stakeholder sustainability initiative promoting better standards and practices in cotton farming. Companies like **H&M**, **Inditex**, **Levi's**, **LVMH**, and **Gap** rely on BCI certification to help fulfill their respective commitments for sustainable cotton sourcing. Much of the supplier engagement in the industry centers around supplier training to aid in the achievement of certification or implementing sustainable farming practices. However, more detailed information is needed in company reporting to fully understand how these efforts reduce a company's impact on freshwater resources and contribute to improved habitat integrity.



Access to Water and Sanitation

Three apparel companies or 27%, (Kering, Gap, and VF) acknowledge the human right to water and sanitation in their corporate human rights policies, with all companies providing varying levels of detail of how this translates to the company's WASH strategy. Additionally, three companies have set time-bound WASH-related targets covering suppliers and communities (H&M, VF, and Gap).

For example, H&M's 2030 goal is to ensure most of the population within high-risk basins where its suppliers are located have sufficient, affordable, accessible, and climate resilient WASH services. To achieve this, the company is working to develop interim targets for 2025, 2027, and 2029. By 2030, Gap aims to empower 5 million people touched by the apparel industry to improve and sustain their access to clean water and sanitation. As part of USAID

and Gap's Women + Water Alliance initiative, the company achieved its 2023 goal of improving access to drinking water and sanitation for 2 million people in cotton growing and textile manufacturing communities in India.

Five apparel companies (45%) (Burberry, Kering, Levi's, LVMH, and H&M) provide access to water and sanitation for their employees. Burberry, for instance, assesses facilities on access to WASH services through its Ethical Trade Code of Conduct audit, and helps remedy any instances of non-compliance. In terms of WASH services within the supply chain, all but one company (LVMH) includes WASH expectations in their supplier code of conduct or health and safety guidelines.

However, it is unclear from the assessments how companies are collaborating specifically with their suppliers to improve their WASH practices.

Only four apparel companies (36%) (Inditex, Gap, VF, and LVMH) support WASH improvements in communities that surround their workplaces. For example, Inditex partners with Water.org to improve access to drinking water and sanitation for vulnerable families through microloans in countries, such as Bangladesh, Cambodia, and India, and in regions of Latin American.



Board Oversight

Governance

Of the apparel companies assessed, 73% (8 out of 11) have corporate boards and senior management that formally oversee material and salient water issues. For example, Inditex's CEO has assumed responsibility for oversight of water-related risks and was involved in the company's decision to set a new water target of reducing water consumption in the supply chain by 25% by 2025. Additionally, water issues are included as an agenda item at all board meetings, with the chief

sustainability officer reporting to the board on water-related risks and opportunities quarterly. At **LVMH**, water-related issues, such as risk mapping, water footprints, and progress against water targets, are reported to the board on more than a quarterly basis.

Of these eight companies with board oversight, six have adopted sustainability-linked governance practices specifically for water (adidas, Fast Retailing, Inditex, Kering, Levi's, and LVMH). The CSO of **Levi's**, for instance, is accountable and responsible for the achievement of the company's broader sustainability strategy and targets, including water-related goals. In addition, the company's senior manager for global sustainability integration has the company's 2025 Water Commitment targets built into the position's annual individual performance objectives.

Business Planning

Nearly all apparel companies (91% or 10 out of 11) consider water-related risks and opportunities as part of major business planning activities and investment decisions. The most common water risks considered include flooding, drought, and water stress. For example, **Gap** has assessed how drought and flooding in agricultural regions where cotton is produced could substantially increase the cost of cotton, which could affect the costs of its products. The company also acknowledges that it has experienced substantive impacts from droughts in Pakistan, including an increase in global cotton pricing and a drop in supply that impacted its revenues. Moreover, both **adidas** and **Inditex** assess the acute physical risk of flooding in China's Yangtze River, evaluating how it might affect their distribution centers, warehouses, and factories.



Additional water-related risks considered by the industry include regulatory and reputational risk. For example, due to national targets for improving water efficiency and addressing pollution along China's Yangtze River, **H&M** actively ensures compliance with current local suppliers while screening prospective vendors for past violations to prevent disruption in production. Additionally, **VF** noted that heightened stakeholder concern or negative feedback regarding water issues (such as environmental degradation from the discharge of untreated industrial wastewater) has the potential to harm its brand value.

Regarding water-related opportunities, companies have reported that they are actively considering water efficiency, enhanced supply chain resilience, and product innovation as significant areas of opportunity to reduce water and chemical use and to integrate into business planning decisions. For example, **adidas** is exploring waterless technologies to minimize the impact of conventional dyeing processes on freshwater resources. The company is also expanding its water reduction efforts by incorporating low water technologies into its product manufacturing and exploring innovative materials and production processes. Meanwhile, **Levi's** recognizes that it sources from countries

facing high water-related risks, including flooding and water scarcity, in Bangladesh, Pakistan, Mexico, and China. To address these risks, the company diversified its supplier base to include regions with less pronounced water-related challenges.

Public Policy Engagement

Although more than half of apparel companies (55% or 6 out of 11) (adidas, Burberry, Inditex, lululemon, LVMH, and VF) are engaged in advocacy around general sustainability issues (including carbon, chemical management, and sustainable materials), only four (36%) (Gap, H&M, Kering, and Levi's) disclose advocacy efforts around specific water-related issues. Gap, for example, collaborates on several water-related initiatives and forums, including the Water Resilience Coalition (WRC) (as a founding member), WASH4WORK, and the UN CEO Water Mandate (this year the company along with several others signed onto its Business Leaders' [Open Call for Accelerating Water Action](#)). H&M has been an advocate on broader water issues by contributing research on sustainable water management to a series of reports on the apparel industry produced by World Wildlife Fund (WWF) in 2022 to encourage the fashion industry to think more holistically about water issues throughout the value chain.

None of the apparel companies ensure lobbying activities are aligned with their water stewardship strategy specifically. Four companies (36%) (Levi's, LVMH, Gap, and VF), disclose alignment of lobbying activities with their general sustainability priorities.