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**COMMISSION STAFF WORKING DOCUMENT**

**POLICY OPTIONS FOR THE COMPETITIVENESS OF THE EUROPEAN  
FASHION INDUSTRIES "WHERE MANUFACTURING MEETS CREATIVITY"**

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### POLICY OPTIONS FOR THE COMPETITIVENESS OF THE EUROPEAN FASHION INDUSTRIES 'WHERE MANUFACTURING MEETS CREATIVITY'

Fashion belongs to the European way of life: it builds on European cultural heritage and creativity. A significant part of the creative economy, European fashion industries are at the crossroads where manufacturing meets creativity.

With almost 850 000 companies, the vast majority of which are SMEs, the European fashion industries form complex, strongly interlinked value chains, embracing design, manufacturing of materials and fashion goods (such as textiles, clothing, footwear, leather and fur products, jewellery and accessories), as well as their distribution and retail to final consumers. These value chains provide employment for over 5 million people, which is equivalent to 3.7% of the total non-financial business economy (2009)<sup>1</sup>. Nearly 2 million are employed in fashion manufacturing alone, which represents 6% of all EU manufacturing jobs. Another 3 million European jobs can be found throughout the supply chain, from design, branding and marketing, to supply chain management and retail, which is the face of the industry for many European citizens.

The fashion industries are in constant transformation. In the past decades, the European fashion industries shifted many of the labour intensive activities to countries with lower cost labour. This shift contributed to the reduction in the number of companies and people active in fashion manufacturing. The decreasing trend has not ceased: between 2004 and 2009 the total number of persons employed in fashion manufacturing declined significantly, from almost 2.9 million to 1.9 million. However, in fashion distribution this trend is reversed, with over 500 000 jobs created over the same period of time.

In the current globalised world, it becomes challenging, if not impossible, for Europe to compete with the emerging economies on the price base. An increasingly knowledge- and innovation-based industry, based on higher value added products, processes and services, can however ensure that Europe's position as global leader remains intact. A number of actors in the EU fashion industries are already on the right road, finding niches in mature markets, developing new brands and business models, investing in creativity and innovation, all of which makes the difference to increasingly demanding consumers worldwide. However this transformation is not complete and new market opportunities for the fashion industries need to be explored.

After years dominated by the relocation of manufacturing activities to low-cost countries, the fashion landscape may now be changing again. New opportunities for European-based companies are arising as a consequence of rising production and logistics costs in the emerging economies, their increasing focus on domestic markets, as well as steadily increasing pace of fashion which requires strict control of production and fast supply to the European market. The domestic market as well as the US and Switzerland remain key markets for the European fashion products. However, the EU market shows some uncertainty in

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<sup>1</sup> "Study on the Competitiveness of the EU fashion industries", IDEA Consult, 2012

consumer behaviour and a loss in dynamics, which was only partially compensated by increases in exports of fashion goods<sup>2</sup>. The third countries markets offer many new opportunities resulting from a rapid growth of consumer base and even faster growing demand in the emerging markets, such as China, Russia, Brazil and India. This gives the EU fashion industry an opportunity to strengthen its position as a key player in the global market.

These new opportunities for the fashion industries can be hampered by various factors. Skills shortages, mismatches and gaps may lead to disappearing of certain activities and know-how from Europe. Existing trade and investment barriers in third countries make reaching new markets by European products and establishing distribution networks more difficult. The efforts European fashion companies make in creativity and innovation may be hampered by illegal activities, such as intellectual property rights infringements. In the current economic situation, access to finance, which is a key determinant for the start-up, development and growth of businesses in the fashion industry, remains a major difficulty.

At this stage, therefore, it is crucial that the European industry is given the conditions and support it needs to take advantage of the existing opportunities. Only a competitive industry, with a clear strategy, will be able to continue making a contribution to the European economy. And this contribution is significant: fashion industries account for 3% of the EU's GDP (2009)<sup>3</sup>.

Stimulating the long-term competitiveness of the fashion industries is crucial. However, the current economic crisis, longer and more severe than expected, requires to take immediate actions to help the European industry face this difficult phase and to strengthen industrial growth and exports. Creating and maintaining jobs and combating growing youth unemployment is one of the priorities related also to societal challenges facing the EU.

With this in mind, it is crucial to provide for a detailed analysis of the challenges and opportunities faced by the fashion industries and set out a set of possible short and long term initiatives. The principal objective of the short term initiatives is to tackle the effects of the economic crisis, focusing on competitiveness, growth and employment while the long term initiatives focus on ensuring right conditions for the European fashion industries which will allow them to take full advantage of the current and future opportunities and remain leader in global markets. On the long term, the possible initiatives proposed will also contribute to achieving the goals of Europe 2020 strategy and notably to smart, sustainable and inclusive growth.

Building on the result of a consultation process involving a broad representation of the fashion industries' stakeholders, including an informal High-Level Group on Fashion and an ad hoc working group, this Staff Working Document analyses existing challenges and opportunities faced by the fashion industries and sets out possible initiatives both in the short and long term, which focus on four main policy fields:

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<sup>2</sup> Light Industries Outlook 2011

<sup>3</sup> Fashion industries include: fashion design, manufacturing of materials and fashion goods (such as textiles, clothing, footwear, leather and fur products, jewellery and accessories), as well as their distribution and retail to final consumers, see: "Study on the Competitiveness of the EU fashion industries", IDEA Consult, 2012

- 1. Investing in knowledge, skills, creativity and innovation**
- 2. Protecting the creative efforts of fashion companies while fostering the digital market**
- 3. Ensuring a level-playing field in international trade**
- 4. Assuring framework conditions necessary for sustainable growth in the fashion industries**

## **1. INVESTING IN KNOWLEDGE, SKILLS, CREATIVITY AND INNOVATION**

### **1.1. Investing in human capital and skills**

Over the past decades, the structure of the workforce in the European fashion industries has changed significantly. The availability of properly skilled workers has become one of the key concerns, and is likely to become even more important in the future. There are several reasons behind this situation, in particular an ageing workforce, difficulties in attracting young people to some parts of the fashion manufacturing, a mismatch between the education systems and the industry needs, low mobility of industry workers. Moreover, many companies and the associated jobs are also lost because of problems with succession, transfer and taking over businesses. The EU fashion industries traditionally employ a relatively high share of women. Whereas women represent around 45% of total employment in the EU in general, in the manufacturing of clothing this ratio is 80%.<sup>4</sup> The ageing workforce, which is evident across all manufacturing sectors, is becoming an important problem in the fashion industry, with the share of 50+ age group increasing and no interest from young people to fill the available jobs. This is linked to the structural decline of the manufacturing industries in Europe, which has given them a rather negative image, and therefore making them rather unattractive for many young people. It is important to stress that in this context the lack of young employees can undermine the long-term competitiveness of the EU fashion industries.

If the EU fashion industries are to further evolve from labour-intensive, low-technology industries to knowledge-based industries, an occupational shift is needed.

Entrepreneurial and managerial skills as well as hybrid ones, combining effective leadership with creativity, innovation and understanding of technologies are necessary to understand changing consumer needs and new opportunities, and translating them into profitable business models. However, for the EU fashion industries to remain competitive, these modern skills have to go together with technical and traditional skills and know-how, which are the core of the European manufacturing tradition. If these skills are not maintained and transferred to younger generations, we could see the loss in Europe of many activities related to these specific skills.

The efforts should therefore concentrate on the core areas: safeguarding and developing further the essential knowledge and skills for the industry, promoting modern skills and competencies as well as entrepreneurship in SMEs. Many potential employees, and in particular young people, are often unaware of all the opportunities existing within the fashion industry value chains.

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<sup>4</sup> "Study on the Competitiveness of the EU fashion industries", IDEA Consult, 2012

In particular, closer cooperation between the industry, trade unions, education and training institutions should be promoted, preferably in the framework of existing mechanisms (such as e.g. the sectoral European Skills Councils, European Classification of Skills, Competences, Qualifications and Occupations (ESCO), etc.)

To this end, the Commission has already launched, and is further working on several initiatives in the field of education, training and skills (such as ESCO and the Sector Skills Council TCL). It is crucial to ensure coordination of these initiatives in order to develop and promote, together with the stakeholders and social partners, a standard European classification of career pathways in fashion, including key skills and qualifications in each pathway.

The Commission also promotes cooperation between vocational education and training (VET) providers, industry and the authorities involved in education and training systems.<sup>5</sup> A Fashion Skills Alliance can also be envisaged, to ensure that vocational and educational training better corresponds to the fashion industries needs. In the field of higher education, Knowledge Alliances are currently being tested, linking universities and businesses in order to promote innovation.

Still in the short term, a system of apprenticeships in key areas could be promoted, in cooperation with the Member States and the industry, in order to develop the precise skills required by the industry and stimulate entrepreneurship. In particular, targeted actions in the apprenticeship and vocational education and training (VET) could be supported making better use of the existing EU Social and Cohesion Funds and the dissemination of experiences.

In the long term, it is of strategic importance to work, together with the industry and education institutions, towards improving the image of the sector, raising awareness amongst young people about the career pathways and opportunities existing in fashion, as well promoting traditional skills and crafts using modern communication techniques. The way forward this may be promoting more and better internships and apprenticeships based on fair working and learning conditions to increase their attractiveness for young people.

Moreover, in order to encourage conception of novel products coupling technological and non-technological innovation, it is important to promote the collaboration between designers on the one hand, and materials scientists and engineers on the other, and to foster the creation of hybrid skills as a consequence.

## **1.2. Fostering creativity and innovation leading to new business models**

Fashion industries undertake important investments into intangible capital (design, marketing, branding, etc.) and non-technological innovation, which are important factors in adding value to fashion materials, products and processes. Moreover, fashion, like no other industry, is strongly affected by trend sensitivity and seasonality; the recent move from two seasons to numerous collections per year required further creative efforts to be deployed at all stages of the value chain and prompted a revolution in the organisation and logistic efforts of all business activities involved.

User-driven innovation has become one of the driving forces in the fashion industries. Fashion companies rely systematically on consumers as sources and co-creators of innovative

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<sup>5</sup> Sector Skills Alliances for % industry sectors are currently being tested in a pilot project: [http://ec.europa.eu/education/calls/s0112\\_en.htm](http://ec.europa.eu/education/calls/s0112_en.htm)

ideas. This trend is facilitated by ICT (Information and Communication Technologies) and other technological developments which enable consumers to participate in design and creation of their own fashion items with the help of 3D visualisation and virtual try-on. In the framework of COSME, the Commission is therefore proposing actions to encourage the adoption of new business models and the commercial use of creative ideas leading to more sophisticated and personalised goods meeting consumers' expectations. Moreover, integrated research and innovation projects oriented to consumers should be supported, in order to capture new markets and new customers by offering them innovative, customised and personalised materials, products and services with high added value.

In the field of research and technological innovation, many new opportunities arise for the fashion industries, in particular resulting from cross-sector initiatives exploiting the potential of new technologies and materials (e.g. the use of nanomaterials<sup>6</sup> or smart textiles<sup>7</sup>). These advancements should be promoted in order to enhance creativity leading to the conception and development of new products and services<sup>8</sup>. Collaboration between the fashion industry and other sectoral initiatives and networks at pan-European level, such as the European Technology Platforms<sup>9</sup>, should be encouraged to further enhance knowledge transfer.

Some of these issues have already been addressed at the EU level: under the EU Seventh Framework Programme, the Commission is financing projects promoting the collaboration of designers and materials scientists and engineers. The support to the development of advanced materials for the creative industry has also been proposed under Horizon 2020.

In the future, in order to fully exploit the innovation potential and excellence of European fashion value chains, the EU should focus on strengthening their trans-national cooperation. Fashion industries have traditionally shown strong geographical concentration around particular types of activities and know-how. Many of these clusters have maintained their competitive advantage over years, but fragmentation and insufficient cooperation prevents them from developing sufficient innovation capacity to effectively face global competition. Actions in this field can include improving cooperation between the various players at different stages of the value chain (e.g. between designers and manufacturers, manufacturers and suppliers), improving qualifications and mobility of workforce, exchanging creative ideas, stimulating cooperation between industry and research in order to bring research and innovation results to market and developing new services to businesses. Support through Structural Funds and other EU funds is crucial in this context.

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<sup>6</sup> Examples of nanotechnology applications include conventional textile processing (finishing, coating and dyeing or microcapsulation (entrapping e.g. perfumes and cosmetics in microcapsules). However manufacturing costs are still considerably high, which impedes commercialisation of nanotechnology enhanced products.

<sup>7</sup> Smart textiles are functional fabrics which can sense and interact with their environment thanks to incorporation of computing, digital components or electronics (e.g. clothes with built in solar panels allowing charging mobile phones). The EU share of the global market for smart textile application is estimated at slightly below 40% ("Study on the Competitiveness of the EU fashion industries", Idea Consult, 2012).

<sup>8</sup> Centre Européen du Textile Innovant (CETI) which will be launched by Lille Métropole in October 2012 is a good example of the importance given to smart textiles. CETI was co-funded by the European Structural Funds.

<sup>9</sup> For more information about the European Technology Platform for the future of textiles and clothing see: <http://www.textile-platform.eu/>

The supply chain of the fashion industries is characterized by a high complexity resulting from a big number of necessary steps and operations, from the raw material to the product in the shop, and by a high degree of dispersion among the many actors. This dispersion affects both the actual and virtual supply chains, which represents a major obstacle to the further development of the fashion industry. In this context, the ICTs make it possible to effectively organise and manage the supply chains and help to boost productivity and efficiency. They enable products and processes innovation and offer new ways of gaining visibility, interacting and reaching new customers. ICT also enables development of new products and practices, such as tailor-made and personalised goods, and makes them available for larger scale production (mass-customisation).

ICT uptake in fashion industries is still limited, in particular amongst SMEs which often lack the funding and necessary skills to implement and effectively use new technologies. It is important to help companies to overcome existing barriers in the use of ICT by supporting investments in the necessary infrastructure and by improving interoperability standards. A coherent long term strategy should also ensure that the necessary e-skills are available and existing ones are constantly updated.

In view of creating a favorable environment for the European fashion industries that stimulates and enables the uptake of ICT and e-Business technologies the Commission has supported the eBIZ project<sup>10</sup>, aiming to harmonize business processes and data exchange architectures and standards at European or international level. It allowed to complete a reference architecture for interoperability, building on existing standardisation achievements. In the framework of CEN (the European Committee for Standardization), the new CEN Workshop eBIZ has been launched. It aims at boosting the use of eBusiness and improving the interoperability of B2B data exchange through the supply chain in the fashion industry. As a next step, further efforts aimed at dissemination of the results of the eBIZ to small businesses should be envisaged.

In the framework of the Competitiveness and Innovation Programme (CIP), the Commission has proposed to launch, in 2013, a 'WORTH<sup>11</sup> Pilot Project' with the objective of stimulating market oriented support and advice to small manufacturers and craftsmen to develop new high value added products and services with the support of designers. It has also been proposed that in 2014, in the framework of COSME, market replication projects focused on the "last inch" before the market would be launched. These projects will aim at increasing the up-take of RDI and/or encouraging the commercialisation of new products and services in fashion and design led consumer or personal goods. Should the results of the 'WORTH Pilot Project' warrant it, the pilot could be transformed into a bigger initiative in the framework of COSME. It could seek to strengthen links between different elements of the value chain and clusters across the EU, promote new business models, products and processes, exchange good practices, detect trends and develop prospective scenarios. Such mechanisms as incubators, innovation hubs and living labs would be encouraged based on good practices in Member States.

The Commission also continues to promote the collaboration between designers and materials scientists and engineers with the objective of developing and timely marketing new successful creative products, which offer improved in-service properties, functionalities and sensorial appeal.

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<sup>10</sup> <http://ebiz-tcf.eu/>

<sup>11</sup> C.F. Worth is considered as the "inventor" of "haute couture" in the mid 19<sup>th</sup> century

It also offers regional authorities to exchange views and discuss their priorities under Structural Funds and other EU funds how to better promote their creative industries. In the long term, the Commission intends to initiate work to identify new business models resulting from the application of digital technologies and develop measures to stimulate more use and uptake of these technologies (in both B2B and B2C). Actions will also be envisaged to support digital entrepreneurship and e-skills to allow companies to take full advantage of the opportunities offered by ICT.

In preparing the implementation of Horizon 2020 for the years 2014-2020, account could be taken of the research needs of the fashion industries and other creative industries notably focusing on projects bringing design more up-stream, and on projects bringing together the industry, designers and researchers with a view to focusing on the market and changing consumers' preferences.

Moreover, it is important to continue working towards simplifying the EU funding programmes for RDI in order to facilitate support of small-scale SME oriented projects bringing together the industry and technology and knowledge centres (or even support projects targeting individual SMEs). The focus of the funding on technology transfer (often from other sectors), adaptation, demonstration and testing projects is foreseen.

In view of exploiting opportunities for utilising new technologies and developing new innovative products and services, the Commission services encourage companies in the fashion industry to engage with European industrial networks, such as the European Technology Platforms. Moreover, other opportunities offered by new technologies, such as those resulting from the application of new ICT instruments (e.g. cloud computing, social media, mobile applications, etc.) will be assessed. The impact of these and other new trends on fashion businesses and possibilities of developing new innovative business models will be further explored.

## **2. ENSURING PROTECTION OF IPR AND CREATIVE EFFORTS WHILE FOSTERING THE DIGITAL MARKET**

Fashion goods account for the largest part of IPR infringing goods in all: they were responsible for over 60% of all cases registered by customs (2011).<sup>12</sup> Intellectual Property Rights (IPR) infringements are a serious concern to the EU economy and to all fashion businesses, from SMEs to high-profile global brands whose goods are subject to frequent counterfeiting. However, European companies, in particular SMEs, often lack the necessary knowledge, information and financial means to adequately protect their rights or to act in the event of an infringement.

Many IPR violations that can undermine the EU fashion industries' competitive position happen in third markets, which are either important potential markets for EU fashion creations and/or countries where the IP of fashion creations are not adequately protected.

Therefore, at the international level, it is crucial to ensure that priority is given to IPR provisions in bilateral trade agreements with third countries and that important technical

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<sup>12</sup> As far as the top product categories are concerned, clothing is in the top 4 categories. See: Report on EU customs enforcement of intellectual property rights, results at the EU boarder – 2011: [http://ec.europa.eu/taxation\\_customs/resources/documents/customs/customs\\_controls/counterfeit\\_piracy/statistics/2012\\_ipr\\_statistics\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/customs/customs_controls/counterfeit_piracy/statistics/2012_ipr_statistics_en.pdf).

issues are raised bilaterally with a number of countries identified. These efforts can be complemented by concrete measures to enhance the flow of information to the national market surveillance authorities, judicial bodies and other authorities about the specificities of fashion products leading to strengthened and more focused controls, as well as efforts to increase consumers' awareness of the damaging effects of illicit trade, including counterfeiting and piracy or parallel imports of fashion goods. In order to improve information exchange, the Commission is currently developing COPIS: antiCOunterfeit and antiPiracy Information System for all customs actions related to IPR enforcement, addressing amongst others counterfeiting and piracy.

Additionally, an active engagement of right-holders is crucial in fight against IPR infringements; therefore better use can be made of existing information tools for customs, such as application for action by customs created under Regulation No 1383/2003<sup>13</sup>, as well as the 'red alert' form used to notify customs about urgent and specific information and the 'new trends' form to notify about new trends which are available for right-holders<sup>14</sup>. Other actions can also be explored, such as developing information tools for market surveillance authorities and other national authorities, with the objective of making them more aware of the specificities of the fashion goods.

The growing importance of the digital environment and of internet sales is creating many new opportunities for fashion industries. They allow fashion companies, in particular SMEs, to reach new markets and offer more and better targeted choices and competitive prices to consumers. Moreover, strong online presence may contribute to creating modern and dynamic image of the sector, in particular amongst young people. However, new threats and illicit business practices often discourage fashion companies from taking full advantage of these opportunities.

In order to stimulate further the online growth of fashion industry, it is of primary importance to assure that the potential of the Digital Single Market for the fashion industry is fully exploited and that protection of both fashion companies and consumers in the digital space is ensured. As underlined in the Communication '*A coherent framework for building trust in the Digital Single Market for e-commerce and online services*'<sup>15</sup> although the importance of e-commerce in the EU is growing, this new vector still remains relatively marginal at only 3.4% of European retail trade. This Communication set an objective of doubling online sales and the share of the internet economy in the European Union GDP by 2015. In fashion, the growth of online sales varies from one Member State to another, accounting for over 12% of total retail sales in Germany and 10% in the UK, while in Italy and Spain they amount to 1% of the market.<sup>16</sup> In view of the objectives set in the referred Communication it is a priority to further foster and facilitate online sales of fashion goods online.

In order to help fashion SMEs identify their needs and rights in terms of protection of their intellectual property, a practical online tool could be developed, linking the activities of the IPR SME Helpdesk, IPR SME China Helpdesk and the EU Observatory on Infringements of Intellectual Property Rights<sup>17</sup>.

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<sup>13</sup> OJ L 196 of 2.08.2003

<sup>14</sup> [http://ec.europa.eu/taxation\\_customs/customs/customs\\_controls/counterfeit\\_piracy/right\\_holders/forms\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_controls/counterfeit_piracy/right_holders/forms_en.htm)

<sup>15</sup> COM(2011) 942

<sup>16</sup> Data for the clothing sector, Study on the competitiveness of the EU fashion industries, IDEA Consult, 2012

<sup>17</sup> Regulation (EU) No. 386/2012 of 19.04.2012, OJ L129 of 16.05.2012

The creation of an ad hoc ‘Fashion Group’ could be encouraged, with the objective of exchanging the views of the industry related to the challenges and opportunities in the field of intellectual property and digital market, and defining and communicating priority actions in these areas.

Still in the short term, it is crucial to strengthen existing IPR Dialogues with third countries incorporating concrete actions for the protection of fashion brands and initiate EU-IPR Dialogues with the main trading partners where these are not yet existent. Such dialogues should focus in particular on the BRIC countries (Brazil, Russia, India and China), Turkey and Euromed. Relevant provisions on IPR enforcement could also be included in Free Trade Agreements under negotiation.

The Commission continues also to promote the EU Observatory on Infringements of IPR with a view to gathering data on counterfeiting and piracy, raising awareness and sharing best practices related to the enforcement of IP rights.

In the long term, an awareness-raising campaign directed to consumers is to be launched, in close cooperation with associations and brands, setting out clear messages (counterfeiting equals less jobs in Europe, unsafe products, organised crime, etc.).

### **3. ENSURING LEVEL PLAYING FIELD IN INTERNATIONAL TRADE, ACCESS TO RAW MATERIALS AND PROMOTING INTERNATIONALISATION**

Although the EU is facing a trade deficit in fashion goods, exports show continuous growth. New export markets are opening up for fashion goods, in particular in emerging markets like China, India, Brazil and Russia. European products are appreciated and considered to be of high quality, merging cultural heritage and crafts with modern technologies and design. However, there are still barriers preventing our export from flourishing. High tariffs, complex technical regulations introducing testing, conformity assessment or labelling requirements, burdensome customs procedures as well as barriers to set up and develop distribution networks are just a few examples. The priority actions should aim at creating level playing field and reciprocity in the global market to enable our businesses to take full advantage of export and investment opportunities.

With raising costs of production and logistics in Asia and shortening time to bring products to European markets, the Pan Euromed system<sup>18</sup> is an important partnership for Europe. In this context, it must be ensured that this region provides to all operators a competitive environment that is truly conducive to trade and investment. Moreover, as shorter distance alone does not guarantee shorter time to market, it is important to strengthen the logistics infrastructure linking the EU and the Pan Euromed space.

Today, more than ever, global competition for raw materials is increasing: cotton prices, which reached unprecedented levels in 2010 and 2011 seriously affected the European fashion industries, along with export restrictions imposed by some important producing countries to protect their domestic industries. Prices of hides and skins are at their highest level in nearly a decade with demand greatly exceeding the shrinking supply. Polyester prices, meanwhile, increase in line with growing oil prices. Therefore, actions at the EU level will be developed

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<sup>18</sup> As set out by the network of preferential agreements in the framework of Pan-Euro Mediterranean cumulation: [http://ec.europa.eu/taxation\\_customs/customs/customs\\_duties/rules\\_origin/preferential/article\\_783\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/preferential/article_783_en.htm)

to secure undistorted access at fair prices to the raw materials needed for the fashion industries.

Moreover, internationalization of SMEs and reaching new markets will be encouraged. In this field the Communication '*Small Business, Big World*'<sup>19</sup> sets out a strategy for supporting SMEs in international markets, in particular through reinforcing business support services and improving the coordination and use of resources (e.g. Enterprise Europe Network) in order to provide tailored support.

With a view to promoting level playing field in the international trade, it is important to strengthen and further develop the dialogue with the key partners, including BRIC countries, USA and Japan, focusing on market access and regulatory issues.

In this context, the existing EU regulatory dialogues in the fashion sector (with China, Brazil and Russia) can be reinforced, with the objective of promoting regulatory convergence. To this end, the Commission has already undertaken a study on standards comparison between the EU and Russia and Brazil in this sector and has launched a similar study with relation to China<sup>20</sup>. Moreover, the possibility of establishing dialogues with other key partners (such as India, USA, Turkey and Japan) should be explored, in order to exchange and promote good regulatory practice.

The Communication '*Small Business, Big World*' underlines the role of Market Access Teams in key third countries in identifying existing support services for SMEs and coordinating between various actors providing support, in order to improve networking and streamline their operations for a better service. Additionally, ways to facilitate communication between the Teams and industry can be explored, with a view of raising their awareness on the specificities of the issues related to fashion goods. A joint forum could be created gathering all actors concerned.

The existing EuroMed Dialogue on the textile and clothing industry can also be further strengthened, with a view to developing common industrial strategies to improve the competitiveness of the textile and clothing industry across the Euro-Mediterranean Region. Possible extension of this dialogue to include the entire Pan Euromed system will be explored. Moreover, more tangible efforts aiming at improving the overall trade and business environments in the countries of the Pan Euromed system will be encouraged.

Moreover, the feasibility of sharing the risk of existing export credit insurance schemes for SMEs could be tested. Such a scheme would provide a high leverage effect: 1 EUR at Community level could generate 40 EUR of export credit.

The EU China Standardisation Information Platform is a practical information tool which makes standards and related technical regulations more accessible for companies, in particular SMEs. Given the big number of existing standards in the fashion industries, an effective policy option would be to extend this platform to these industries.

In order to gather information and promote services for SMEs focusing on internationalisation, the Commission will map already existing support for SMEs in third countries directed towards fashion industries. This will enable any gaps to be identified and

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<sup>19</sup> COM(2011) 702 final

<sup>20</sup> In the framework of the second phase of the EU- China Trade Project

addressed. Key countries for fashion industries will be identified (4 to 6 countries) in order to further develop business support structures and ensure, in cooperation with the industry, that the structures meet the specific needs of European fashion industries.

In the long term, a set of actions to ensure undistorted access to key raw materials<sup>21</sup> could be developed. In particular, follow-up of the availability and prices of raw materials of crucial importance for the fashion industry is necessary. Moreover, it is paramount to react adequately to export restrictions put in place by third countries (ensuring respect of WTO provisions) and include, where possible, WTO+ provisions in Free Trade Agreements (FTAs). Additionally, development of sustainable and recyclable materials should be promoted, as well as enhancing use of natural fibres grown in the EU (e.g. flax, hemp, wood fibres) to limit dependency on third countries resources.

Moreover, work towards improving direct access to public procurement markets in third countries should be continued.

Finally, it is also important to ensure that the fashion agenda is taken into account in 'Missions for Growth' in key third countries.

#### **4. PROMOTING SUSTAINABLE AND RESPONSIBLE GROWTH AND ENSURING FRAMEWORK CONDITIONS FOR THE FASHION INDUSTRIES**

Legislative and regulatory environment is crucial for a sustainable growth of the fashion industry. In this industry, where the vast majority of firms are SMEs, the principles of 'think small first' and competitiveness proofing must be applied as a priority at the EU and Member States level.

A number of aspects related to the fashion businesses influence their access to finance. First of all, the average small size of enterprises (with majority of them being micro-enterprises) affects their ability to obtain sufficient financing to invest in innovation and growth. Creating a successful fashion business is relatively easy as entry barriers are usually lower than in some other industries (there is often less need for significant investments in tangible assets, such as factories and heavy machinery). However, since assets of fashion companies are often of intangible nature, they may be unable to provide sufficient collateral. Moreover, access to finance for SMEs has become even more difficult as a result of the economic and financial crisis. Operations of small fashion businesses require adequate capital: for instance, in fashion design, designers experience long delays between receiving their orders and payment by the final client. In the meantime, they need to finance the purchase of raw materials, preparation of samples and production of the collection. For these reasons, developing financing conditions geared to particular needs is crucial in terms of facilitating creation, growth and upgrading of fashion businesses. Actions should also be undertaken to help small fashion companies and financial intermediaries to better assess and value intangible assets. In addition, both fashion companies and investors need to be made more 'investment ready' by working with both sides to help them understand their respective needs and expectations.

Responsible business conduct is important for fashion companies to help them create and keep consumers trust and overall confidence in the sector. A growing number of companies

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<sup>21</sup> The raw materials considered as crucial for the fashion industries are not covered by the European Innovation Partnership on Raw Materials (COM (2012) 82 final)

see Corporate Social Responsibility (CSR) as a way of distinguishing themselves from their competitors and gaining competitive advantage. The Commission services believe that promoting CSR contributes to creating conditions favourable to sustainable growth, responsible business behaviour and durable employment generation. Therefore it is necessary to support and promote companies' efforts in CSR in order to stimulate market reward for responsible business conduct. More visibility should be given to businesses actions in this field in order to assure information to consumers, for whom sustainability is becoming one of the criteria of their choice of products.

To face these challenges, different short term measures are needed. With a view to facilitating access to finance, in particular for small and medium-sized fashion companies, it is crucial to improve access to the existing and forthcoming financial instruments under COSME and Horizon 2020. In particular, the feasibility and EU added value of a loan guarantee fund for fashion businesses could be assessed.

Besides, it can be ensured that in the current reform of State aid, certain State aid measures are well suited to the needs of SMEs (e.g. aid for participation in fairs, limited compatible amount of aid not subject to notification (*de minimis*), SME definition).

In the regulatory area, a gap has been identified by industry associations: while labelling of textiles and footwear (including leather footwear) is regulated at the EU level, no EU legislation covers the labelling of leather and leather products as such. This is why the Commission will explore the need for and feasibility of labelling in the field of leather and leather products at the EU level.

Still in the regulatory area, freedom should be ensured to choose distributors and distribution formats as well as to prevent possible free riding between them, while promoting competition, both online and offline.

In relation to CSR, the Commission offered the industry stakeholders a possibility of creating CSR platforms in relevant business sectors, including the fashion industries.<sup>22</sup> For the fashion industries such actions could be focused in particular on: consumer engagement and behaviour change, transparency disclosures, improvement of environmental performance based on a life-cycle thinking, sustainable sourcing of primary materials as well as limitation of harmful substances, and other actions. Additionally, the Commission services will encourage the industry to develop a Code of good practices between producers and retailers, in full compliance with competition rules.

In the longer term, opportunities for the fashion industries for growth and jobs could be explored in the framework of the research and innovation strategies for smart specialisation linked to cohesion policy support.

Finally, the Commission could support the development of 'fashion tourism' products on a European scale linking fashion, craft, culture and tourism. Actions could include linking and promoting fashion museums, factories, exhibitions, fairs, fashion weeks and shopping districts across the EU. They could involve private partners, be centred on certain themes (e.g. fashion and craft trails) and target different groups.

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<sup>22</sup> More about the call for proposals: [http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sustainable-business/corporate-social-responsibility/index_en.htm)

## **5. FURTHER MONITORING OF THE PROPOSED POLICY OPTIONS**

The Commission services will continue working with the industry on monitoring the challenges, opportunities and possible initiatives identified in this Staff Working Document and, if necessary, continue identifying and addressing those that can emerge in the future. After two years, a review of these developments will be undertaken by the Commission services.