



APTMA KNOWLEDGE BRIEF SERIES **November 2023**

EU Green Deal

Implications for Pakistan's Textile Sector

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ATPMA introduced the Knowledge Brief Series in 2023 to provide policymakers, business leaders and the public at large with concise, critical insights and analysis on key topics related to Pakistan’s sustainable economic development and compliance efforts to the critical social and environmental regulations.

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1. EXECUTIVE SUMMARY

As part of its mission to achieve net-zero and environmental sustainability, EU through its Green Deal will phase out products with high carbon footprint and only import carbon neutral textile products manufactured keeping in mind the EU's eco-design requirements. The new regulations/strategies/directives related to the textile industry introduced in the Green Deal (EU Strategy on Sustainable and Circular Textiles, Corporate Sustainability Due Diligence Directive (CS3D) and Carbon Border Adjustment Mechanism (CBAM)) provide detailed guidelines regarding the upcoming requirements from the manufactures/producers. For Pakistan to ensure compliance with the GSP+ obligations for its continuation as well as gain a competitive position in the global export market, it must fully own and fulfill the requirements of the Green Deal and related legislations and directives.

In order to comply with the EU Strategy on Sustainable and Circular Textiles, Textile exporters must manufacture more durable, and resource and energy efficient products with maximum recycled content and zero chemicals of concern. The current focus of only manufacturing new products must be transitioned to recycling. Moreover, as data disclosures will become mandatory, unused/returned or unwanted clothes as well as post-consumer waste/products imported from other countries as well as internally generated must be recycled and dumping/landfilling must be strictly discouraged. This requires critical changes in the system at both national and firm level.

At the national level, Pakistan must establish a waste sorting hub to collect and direct used clothing to the resale markets and transfer textile waste to the interested companies to generate recycled content for their manufacturing. EPR (Extended Producer Responsibility) protocols should also be developed for the companies to recycle their textile waste in their own facilities. At the firm level, companies must acquire new certifications as an evidence of avoiding plastic pollution and adopt technologies to capture microplastics emitted during manufacturing. This requirement demands product labelling according to the level of microplastics emission to the environment. This brings us to the green claims requirements that focus on adopting science-based targets to avoid false claims of environmental performance of the products.

Corporate Sustainability Due Diligence Directive (CS3D) requires urgent strategic considerations for the manufacturers to fulfill. These include developing traceability upstream and databases at both company and national level to collect information regarding raw material providers and manufacturing processes; improving occupational health and safety and grievance mechanisms for the workers and collaborating with independent intergovernmental bodies to comply with the sustainability standards as well as to identify most critical labour and environmental risks in the industry.

Lastly, Carbon Border Adjustment Mechanism (CBAM) clearly demands producers to communicate emissions data to the importers and manufacture carbon neutral products. Right now, textile sector is not targeted under the mechanism which leaves a massive opportunity for

the textile manufacturers to prepare for possible scope expansion. Pakistan must develop its own emissions trading or carbon credit system in alignment with the EU requirements. Also, a shift to solar and clean geothermal energy sources backed by right policy intervention (raising of cap on solar net metering for all industrial consumers from 1MW to 5MW and allowing B2B contracts with wheeling charge of 1 cent/kWh) is crucial to support net-zero global efforts and counter climate change impacts.

2. INTRODUCTION

European Union’s Green Deal is a roadmap to achieve a climate neutral EU economy (net-zero GHG emissions) by 2050. With the overall agenda of using decarbonization and sustainability to support economic growth and competitiveness, the EU Green Deal firmly targets to (figure 1):

- Increase the EU’s climate ambition for 2030 and 2050
- Supply clean, affordable and secure energy
- Mobilize industry for a clean and circular economy
- Build and renovate in an energy and resource efficient way
- Accelerate the shift to sustainable and smart energy
- Promote a healthy and environmentally friendly food system
- Preserve and restore ecosystems and biodiversity
- Promote zero pollution for a toxic free environment

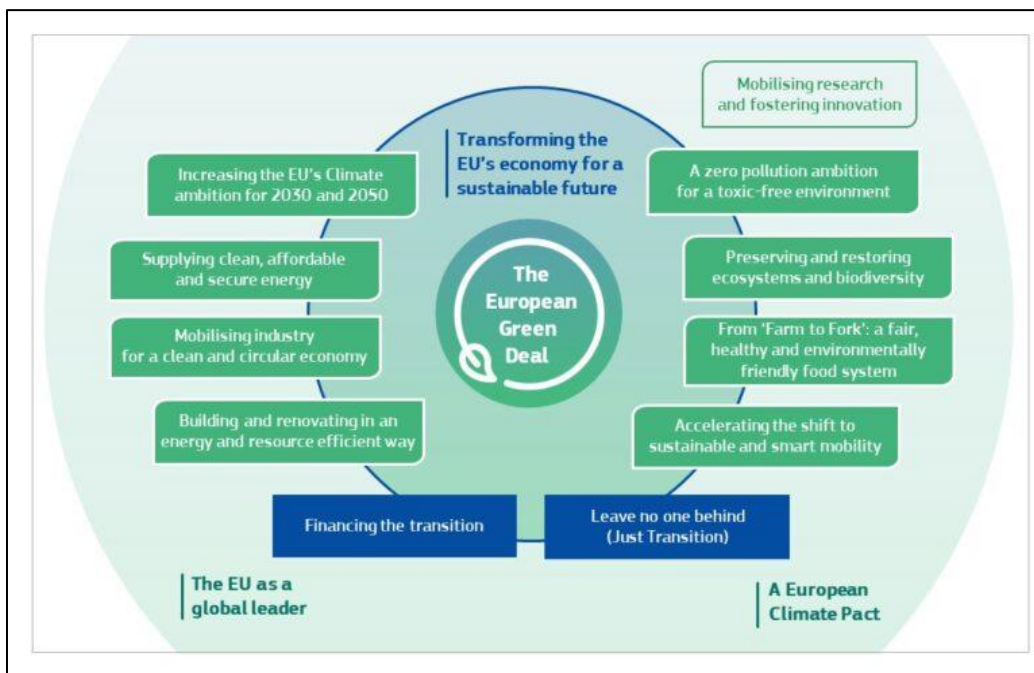


Figure 1: The targets of EU Green Deal (Switch to Green).

In order to achieve these targets in a socially and environmentally sustainable, efficient and fair manner, the EU Commission through the Green Deal proposes directives, legislations, strategies

and action plans to ensure the necessary green transition. As EU will gradually regulate its imports to reduce their carbon footprint and associated environmental and social hazards, the Green Deal will have both challenges and opportunities for the Pakistani exporters. Textile industry is Pakistan's largest export sector to the EU; thus, EU's upcoming regulations related to textile sustainability require maximum understanding and efforts for their compliance.

A major challenge right now is that fast but firm transition to achieve net-zero and environmental sustainability requires swift implementation of key policy interventions at the government level and crucial structural transformations at the company level. However, if it happens, the opportunities are huge in terms of making Pakistan a leader in supporting global net zero targets and reducing climate impacts while also maintaining a competitive status in the global exports market.

This report takes a deeper look into the implications of three most relevant strategies/directives/legislations of EU Green Deal for Pakistani exporters. These include EU Strategy on Sustainable and Circular Textiles that is further supported by discussions on eco-design requirements, Waste Framework Directive and Extended Producer Responsibility (EPR), Microplastics Regulation, regulations on green claims and textile labelling requirements (Digital Product Passport); EU Corporate Sustainability Due Diligence Directive (CS3D) and Carbon Border Adjustment Mechanism (CBAM). **These regulations will be enforced in the coming 5-10 years; therefore, the challenges must be addressed now.**

3. EU Strategy on Sustainable and Circular Textiles

The strategy envisions that "by 2030 textile products placed on the EU market are long-lived and recyclable, to a great extent made of recycled fibres, free of hazardous substances and produced in respect of social rights and the environment. Consumers benefit longer from high quality affordable textiles, fast fashion is out of fashion, and economically profitable reuse and repair services are widely available. In a competitive, resilient and innovative textiles sector, producers take responsibility for their products along the value chain, including when they become waste. The circular textiles ecosystem is thriving, driven by sufficient capacities for innovative fibre-to-fibre recycling, while the incineration and landfilling of textiles is reduced to the minimum."

The key actions of the strategy include:

- Introducing mandatory Ecodesign requirements
- Stopping the destruction of unsold or returned textiles
- Tackling microplastics pollution
- Introducing information requirements and a Digital Product Passport
- Green claims for truly sustainable textiles
- Extended producer responsibility and boosting reuse and recycling of textile waste

To achieve these key actions successfully and efficiently, further legislative processes have been introduced. These legislative processes include: 1. Ecodesign requirements for Sustainable

Products Regulation (ESPR), 2. Waste Framework Directive & Extended Producer Responsibility, 3. Waste Shipment Regulation, 4. Textile Labelling Regulation (Digital Product Passport), 5. Green Claims, 6. Microplastics Regulation and 7. EU Taxonomy.

3.1. EU Ecodesign Requirements

The mandatory eco-design requirements for the textiles (figure 2) include a) durability (b) reliability (c) reusability (d) upgradability (e) reparability (f) possibility of maintenance and refurbishment (g) minimizing the presence of substances of concern (h) energy efficiency (i) resource efficiency (j) recycled content (k) possibility of remanufacturing and recycling (l) possibility of recovery of materials (m) environmental impacts, including carbon and environmental footprint and (n) expected generation of waste materials.

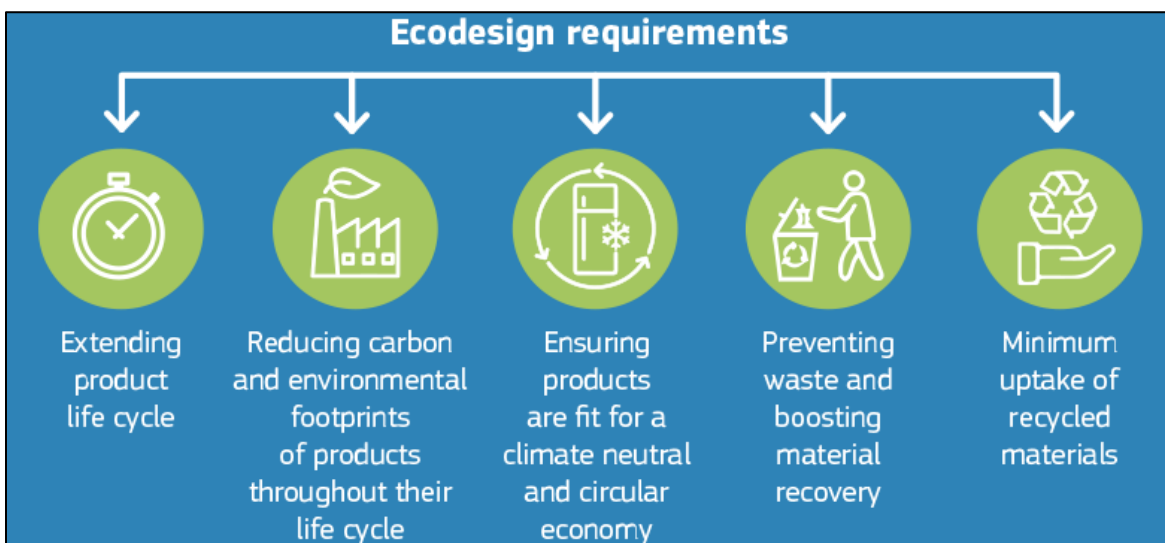


Figure 2: EU Ecodesign requirements (Switch to Green).

This indicates that once the *Ecodesign requirements for Sustainable Products Regulation* is enforced, **EU will only prioritize textile products manufactured with a higher compliance to the eco-design requirements stated above. Pakistani exporters, therefore, must prepare their operations and shift their focus towards manufacturing more durable, energy and resource efficient textile products with zero chemicals of concern and maximum recycled content.** Moreover, as the consumer focus has largely shifted towards reusing and recycling textiles to the maximum along with the presence of recycled content in new products, **textile and garment exporters must transform their infrastructure to establish sorting and recycling hubs rather than concentrating only on new manufacturing, which has a higher environmental footprint.**

The EU eco-design requirements also aim to stop destruction of unsold and/or returned textiles and enable conditions for the producers to know the consumer demands in a more dynamic manner. As a result, **exporters will be mandated to publicly disclose the amount of products they destroy/discard (which are further been incinerated/landfilled) – thus requiring to**

reduce to the minimum the destruction as well as production of unwanted/unsold/returned cloths. Companies will also have to establish communication tools and mechanisms to proactively communicate with their customers regarding product demands and design.

3.2. Waste Framework Directive & Extended Producer Responsibility (EPR)

Waste Framework Directive lays down waste hierarchy (figure 3). It states that waste shall be managed – without endangering human health and harming the environment, – without risk to water, air, soil, plants or animals, – without causing a nuisance through noise or odors, – and without adversely affecting the countryside or places of special interest. This directive also introduces the concept of Extended Producer Responsibility (EPR). EPR specifies that the producers and importers of products (waste/plastic) should be held responsible to manage their waste i.e. at least 80% of the volume brought onto the market must be collected and recycled and regular reporting to authorities + compliance audits shall be made mandatory.



Figure 3: Waste hierarchy to prevent landfilling (European Commission).

Pakistan is currently experiencing a broken waste system. There are two major textile waste categories in the country: The post-consumer textile waste imported from other countries as well as generated within Pakistan and unwanted/unsold or returned textile products. **Management of this waste requires critical infrastructural transformation at both country and company level. At the country level, Pakistan can establish waste sorting hubs to sort the used textile products/waste imported from other countries as well as internally generated, direct used clothing to the resale markets and transfer textile waste to the companies to generate recycled content for their manufacturing. Government should also develop Extended Producer Responsibility (EPR) guidelines and protocols for the companies to recycle their own waste/unused/returned cloths. Companies on the other hand can**

support these waste sorting hubs and also develop a communication mechanism with the resale markets to actively receive unwanted/post-consumer textile waste for recycling. This will also require clear rules to differentiate whether a product is just used or a waste.

Whether EU through its Waste Shipment Regulation will completely ban the export of textile waste/used clothing is unclear now. However, **if it does, this will massively affect the second hand clothing market in Pakistan thus shutting businesses and people's earning while also reducing a possibility for the textile manufacturers to get recycled content from the used clothing/textile waste.** Therefore, export of well sorted used clothing/textile waste is a more feasible solution along with national bodies stringently regulating their disposal/dumping.

3.3. Microplastics Regulation

As a new circular economy action plan, EU Green Deal focusses on addressing the presence of microplastics in the environment by controlling intentionally added microplastics to the environment, developing labelling and certification measures on unintentional release at all stages of products' lifecycle, enhancing capturing of microplastics and promoting scientific knowledge regarding risks and occurrence of microplastics pollution in the environment.

Therefore, in addition to the fulfillment of eco-design requirements for the products, **manufacturers will be required to use other innovative materials (with less and/or no microplastics) and adopt microplastics capturing technologies.** Moreover, companies will be mandated to acquire new certifications related to microplastics pollution and develop product labelling according to the level of microplastics emission to the environment. Products with more microplastics emissions will be least preferred.

3.4. Green Claims

Regarding green claims requirements for sustainable textiles, a proposal has been submitted for a directive that shall aim to protect consumers and empower them to contribute actively to the green transition. Under this directive, explicit environmental claims, labels and communication of environmental impacts of the products will be monitored to avoid all forms of greenwashing.

Certain conditions including third party verifications and evidences of science-based targets will be implemented by the EU to assess environmental performance of products. This will require a thorough understanding of the revised EU Ecolabel criteria. The requirement for the industry right now is to set science-based targets, improve environmental performance of products and design scientific techniques to report evidences of this performance.

3.5. Textile Labelling (Digital Product Passport)

Companies will be required to fulfill mandatory information requirements and **submit clear and accessible data regarding environmental performance of the products.** This goes along with the Textile Labelling Regulation and EU might introduce a **digital label for the manufactures to include all information regarding products' manufacturing processes, content (fibre composition), environmental footprint and other eco-design parameters.**

This will require manufactures to develop traceability and maintain databases of information regarding products' origin, composition and manufacturing along with the evidences.

4. EU Corporate Sustainability Due Diligence Directive (CS₃D)

EU CS₃D aims to mandate due diligence on human rights and environmental risks for large and mid-sized companies operating in the EU. It will likely be adopted in 2024 and enforced for some companies in 2026. Pakistani textile and garment companies are unlikely to be covered under this directive initially. However, as EU companies sourcing from Pakistan are targeted, this will have indirect implications for the Pakistani industry.

In order to fully integrate this directive, companies are expected to adopt a due diligence policy that covers the entire value chain, conduct risk assessments, develop preventative action plans for complex risks, ensure strong stakeholder engagement (both suppliers and workers), introduce grievance mechanisms for affected stakeholders, mechanisms to provide remedy to the affected communities, set thorough emissions reduction targets and promote responsible purchasing practices.

The most urgent strategic considerations to prepare for this directive are crucial to be noted. One of them is improving traceability upstream and visibility of raw material providers. Others include focus on sectoral solutions that have worker backing and engage with independent intergovernmental bodies such as ILO and UN, set grievance mechanisms for the workers at sectoral level, focus strongly on most critical labour and environmental risks, and consider recycling hubs.

An **EU Helpdesk** has been planned to be established in Pakistan along with some other targeted countries. This flagship initiative will raise awareness regarding EU's due diligence directive and measures to strengthen full integration of this directive in the supply chain. Companies must get maximum benefit from this helpdesk to understand all the future requirements of due diligence.

5. EU Carbon Border Adjustment Mechanism (CBAM)

EU's *Fit for 55 Package* aims to help EU reduce at least 55% of its GHG emissions by 2030 compared to 1990, and ultimately, climate neutral economy by 2050. Therefore, autonomous measures such as CBAM are developed to support ambitious climate action and sustainable development (figure 4).

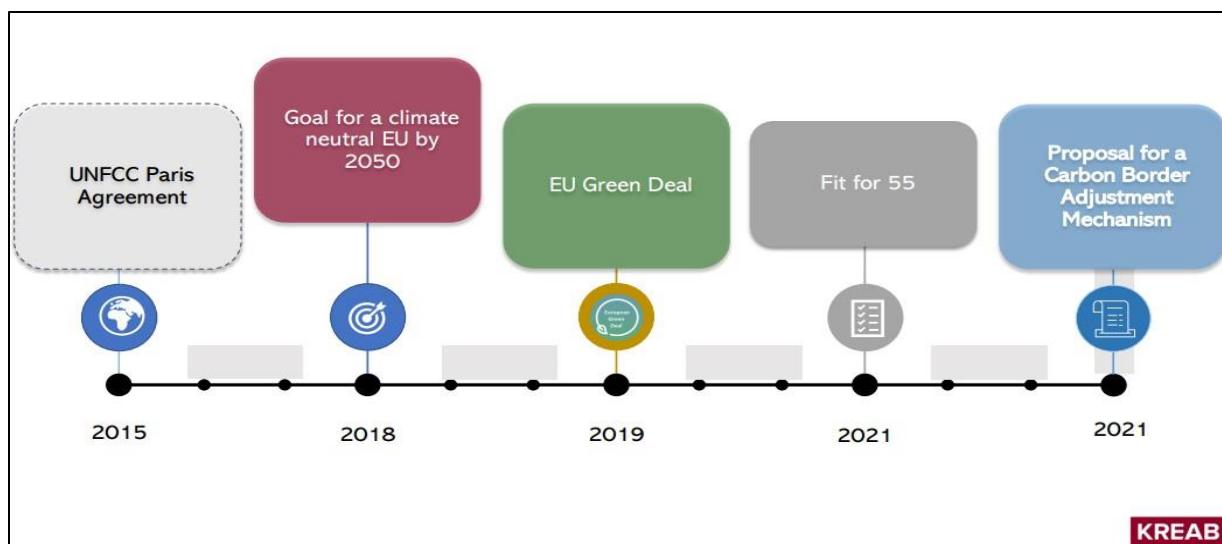


Figure 4: The timeline of EU's major climate goals (KREAB).

The key principle of CBAM states that importers will pay an individual carbon price for imported goods which is calculated taking into account: The actual carbon content of the imported goods or default carbon values, the average closing prices of EU ETS allowances on the auction platform, level of free allocations of EU ETS allowances in the EU and carbon price effectively paid in the country of origin.

The initial phase of CBAM will cover six high-impact sectors that include cement, iron and steel, aluminum, fertilizers, electricity and hydrogen. CBAM has entered its transition period that will end by 31st December 2025 and full implementation will start from January 2026.

Emissions data will be communicated to the importers by producers using Commission's reporting template. This data will include information on the installation, the production processes and routes used for each of the aggregated goods category, the specific direct and indirect embedded emissions, calculation methods and data quality and information on carbon price due.

Quarterly reporting in the transition period is followed by yearly reporting in the full implementation period. Importers will continue to report embedded direct and indirect emissions based on data submitted by producers. Importers will need to purchase and surrender CBAM certificates equivalent to the embedded emissions of their imports.

The overall processes and actors involved in CBAM emissions reporting and approval (figure 5) can be seen in the figure below. Using the EU reporting template, producers report embedded emissions to the EU importers and this information is reported to the EU customs authority as well. Once the authorization of CBAM declarants (importers) is cleared, customs authority reports to the European Commission. On the other hand, importers declare emissions embedded in their imported goods in the CBAM registry, declare carbon price paid in the country of origin and surrender CBAM certifications granted by the member state authorities.

These emissions are also verified by the accredited verifiers and report to the European Commission. The Commission then processes CBAM declarations in the CBAM registry, takes account of carbon price paid in the country of origin as well as certifications for rest of the emissions and pursues anti-circumvention practices.

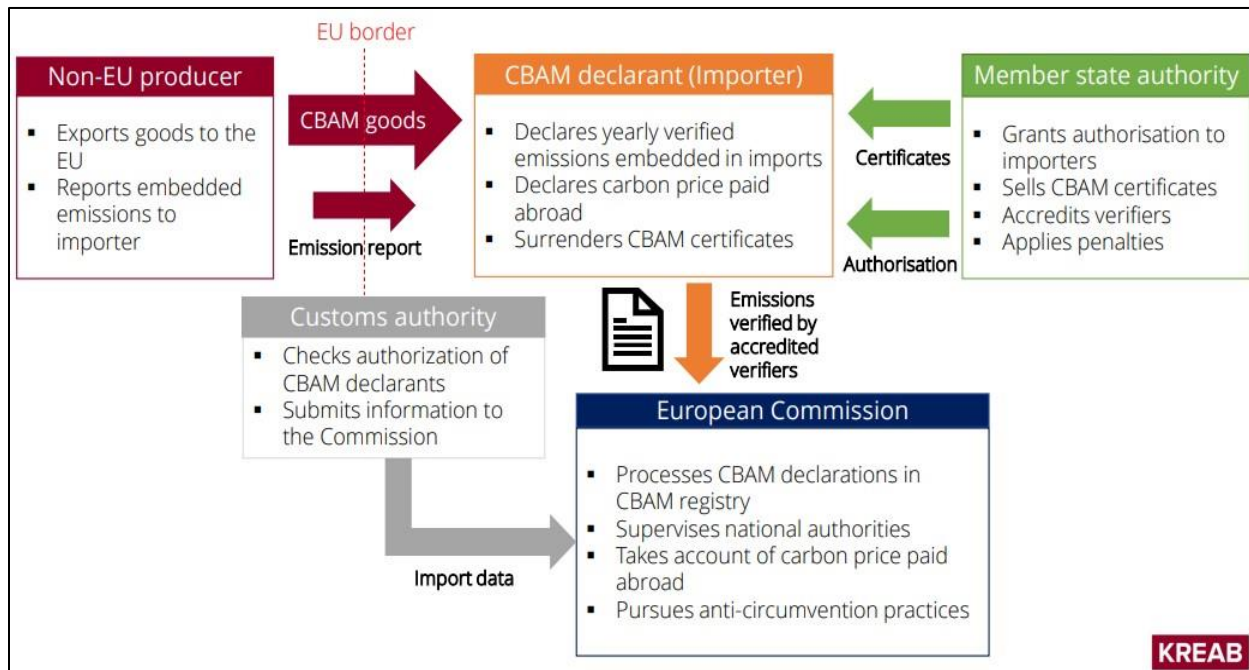


Figure 5: CBAM relevant processes and actors (KREAB).

The key takeaways for Pakistani exporters:

- CBAM has entered transition period and full implementation will begin in 2026. **Are Pakistani exporters aware of this time timeline and potential obligations during the implementation phase? Where do the exporters stand in terms of being able to measure, report and verify emissions?**
- The carbon price to be paid to the EU ultimately depends on the carbon content of the goods and the carbon price paid by in the country of origin. **What could this mean for the companies in Pakistan? How carbon intense are Pakistan’s products compared to the competitors? What role can carbon pricing play in Pakistan’s domestic policies?**
- CBAM will initially apply to six sectors and discussions on adding further sectors including textiles will pick up in 2025. **Why is it important to take action already in sectors independent of CBAM now? How can Pakistan’s textile industry follow and prepare for a possible scope expansion of CBAM in the coming years?**

EU will gradually phase out products with emissions from its market. Pakistani exporters who fail to produce products with less and ultimately zero emissions and design stringent emissions calculations techniques will lose their status in the market. Other major and emerging economies such as India, Japan, Indonesia and Vietnam have already launched carbon

credit and emissions trading systems to align their manufacturing with the EU requirements. Bangladesh has already started preparations to adopt net-zero emissions by requiring new buildings with a rooftop area of over 92.2 square meters to have net-metered solar power to be eligible for a grid connection.

The most logical transition for Pakistan right now in supporting the global net-zero efforts is to shift to solar and geothermal energy sources. Industrial consumers in Pakistan are subject to a cap of 1MW on solar net-metering while a shift to clean geothermal energy requires B2B contracts with a wheeling charge of no more than 1 cent/kWh, all inclusive. For Pakistan's economy to survive amidst the transforming international policy landscape and mounting compliance requirements demands a raise of cap on solar net metering for all industrial consumers from 1MW to 5MW and allow B2B contracts with wheeling charge of 1 cent/kWh.

6. CONCLUSION AND PRIORITY AREAS

For Pakistan's textile industry to gain a global recognition and competitive status in the export market, it must align its manufacturing with the EU's requirements of textile circularity, due diligence and reduction in carbon emissions. Based on the above discussion, the following priority areas are identified to be addressed now:

- Promotion of sustainable value chains, recycling, and circular business models in Pakistan's textile industry.
- Supporting technology upgradation especially green technology (low carbon emission technologies) by allowing B2B contracts with wheeling charge of 1 cent/kWh and solar net metering to 5MW.
- Carbon pricing policy option available to Pakistan in the future.
- Supporting public-private efforts to market sustainable Pakistani products and processes in the international market.
- Supporting stronger negotiation for shared responsibility between brands and manufacturers and inclusion of responsible contracting clauses.
- Supporting the development of domestic waste management systems.
- Supporting traceability, data gathering, reporting, and monitoring on sustainability indicators including water, chemical consumption and carbon emissions, and due diligence indicators (human, labour, and environmental rights).
- Supporting resource efficient production processes in the textile industry.
- Promoting risk management processes for human, labour, and environmental rights in supply chains.
- Improving Pakistan's country risk profiling against human, labour, and environmental rights specifically in addressing the requirements that are part of the EU Corporate Sustainability Due Diligence Directive.

- Promoting Occupational Health and Safety in the textile industry along with setting up Grievance Mechanisms at the firm and sectoral tiers.
- Increased focus on collaboration between academia, private and public sector.
- Supporting SMEs for international sustainability certification and accreditation.
- Cotton origin testing and isotope testing lab for supporting increased traceability.
- Recycled polyester traceability system to be established.
- Development of pilot projects and case studies to provide SMEs with an understanding on how to improve upon various sustainability indicators, increased certification, and other aspects.
- Awareness sessions to be conducted to communicate a consolidated understanding of upcoming EU trade requirements.
- Increased engagement with Pakistan's International Trade Missions, EU brands, EU country office for communicating information on Pakistan's progress to compliance.
- Increased focus on just transition in the textile industry.