

# Ripple Effects

## Questions for investors and lenders to ask management

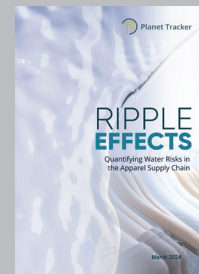
### Recommended Questions

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| <b>Q.1</b> | <p><b>Question:</b> <i>How do you monitor water dependencies and impacts across your supply chain and the associated risks?</i></p> <p><b>Background:</b> Many stages of the manufacture of apparel are significant users of water. The availability of water is increasingly becoming stressed across the globe as a result of climate change, inefficient use and untreated disposal. Increasing water stress could threaten production of textiles in many key regions.</p> <p><b>Target:</b> Management monitor water-related risks across both their own operations and the “Scope 3” of their supply chain.</p> |
| <b>Q.2</b> | <p><b>Question:</b> <i>Do you report on water usage? Do you plan to start reporting water usage?</i></p> <p><b>Background:</b> Apparel companies should publicly disclose their water use and water risks via a standardised framework such as the CDP. Investors should be demanding high quality data from their holdings on their direct and indirect water impacts, so that they can better quantify the risks to which they are exposed.</p> <p><b>Target:</b> Water impact data is disclosed via a standardised framework such as the CDP.</p>  |
| <b>Q.3</b> | <p><b>Question:</b> <i>What investment are you making into mitigating water related risk?</i></p> <p><b>Background:</b> Relatively small levels of investment can be transformative in terms of the environmental impacts of the textile supply chain (see our report <a href="#">Easy-UnPickings</a>). Given the potential risk to their businesses, major brands should be working with their suppliers to reduce water related risk.</p> <p><b>Target:</b> Report details of the size and nature of investments made in own operations and supply chain partners to reduce water impacts.</p>                      |
| <b>Q.4</b> | <p><b>Question:</b> <i>Have you established any targets related to water dependencies and impacts? Have you set any Science-Based Targets (SBTs) concerning water?</i></p> <p><b>Background:</b> To reduce their water risk and improve their environmental footprint, corporates should set targets to reduce their negative water impacts and move to a sustainable water footprint for both direct and indirect operations.</p> <p><b>Target:</b> Publish targets for transitioning water impacts to a sustainable footprint.</p>  |

### Report Key Takeaways

- We see a number of potential business risks from water to major apparel brands/retailers:
- Physical risks to operations and supply chains from a lack of water;
- Regulatory risk from potential changes to water costs, access rights or social license to operate;
- Reputational risk from adverse coverage of a brand’s water impacts.
- Given a potential material impact to revenues and margins, apparel corporates need to consider water risk as a strategic threat and develop plans to manage and reduce this risk over time.
- For investors to appropriately price water risk in the apparel sector, they need consistent comparable data. Today the textile sector remains some way from meeting this need. Investors need to work with their holdings to address this data gap.

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