



2016

# STAYING THE COURSE

THE WORLD FEDERATION OF THE SPORTING GOODS INDUSTRY AND CLIMATE CHANGE



# INTRODUCTION

The World Federation of the Sporting Goods Industry (WFSGI) is the global authoritative body for the sporting goods industry. Our members include sporting goods brands, manufacturers, suppliers, retailers, national/regional federations, industry and trade associations and other sporting goods industry related businesses.

The WFSGI plays an important role as a resource for its members and as a platform for sharing best practice. We work to understand emerging and ongoing issues of relevance, assist our members to stay current with those developments, and advocate for appropriate laws and practices.

## EXECUTIVE SUMMARY

It is now widely accepted that climate change is a serious, significant and escalating global challenge and that there is an urgent need for action to mitigate its effects. Alongside a range of initiatives aimed at helping companies to address climate change risks, the 2015 UN Climate Change Conference in Paris represented a key acknowledgement of the severity of the issue by committing 195 governments to a global deal to limit temperature rises.

Indeed, the likelihood of legislation affecting businesses in the wake of the Paris Agreement is an important driver for companies to take the issue seriously. In addition, many of our members are particularly vulnerable to the physical effects of climate change – both extreme weather events and impacts on the availability of raw materials. There are also reputational drivers as the topic gains a higher profile.

It is fair to say that members wishing to protect themselves from the effects of climate change, as well as to reduce their own impacts, face significant challenges – from identifying priorities to the necessary investment of time and money and the prevalence of other, more demonstrably urgent, issues. Nonetheless, we believe that climate change is a critical issue that both affects and is affected by all members, and that all have a responsibility to reduce their impacts and improve their ability to adapt to our changing climate.

Indeed, we believe that in the coming years the growing physical impacts of climate change – along with the growing cost of conventional energy and increased legislation – will compel decisive action and offer advantages to companies who act promptly.

The purpose of this paper is to provide WFSGI members and others with an overview of the context within which climate change has gained in significance, to outline our view of the drivers for taking action as well as the challenges, and to explain how we can support our members.

## CONTEXT

There is widespread scientific consensus that climate change is one of the most significant challenges currently facing the global community. With 2014 research concluding that it ‘threatens irreversible and dangerous impacts’<sup>1</sup>, the urgent need for concerted and collective action by all parts of society is increasingly recognised.

It is also widely acknowledged that the accelerated changes in climate that are taking place today are due in large part to human activity. Addressing the crisis means preparing for further, inevitable effects of climate change and taking action to reduce them as far as possible. All of society has a role to play, and the business community in particular has both a responsibility to act on climate change and an interest in doing so as it is increasingly vulnerable to its consequences.

Climate change should be of particular concern to our industry, which exists to promote human wellbeing through the enjoyment of sport and the outdoors. Furthermore, many of its physical impacts are already being felt, to varying degrees, by our members and their business partners in many areas of the world. These include extreme weather events – and their impact on the workforce – changes in the quality and availability of certain raw materials, and degradation in biodiversity.

### THE PARIS AGREEMENT

Bearing testimony to growing recognition of the urgency of this issue, the United Nations Climate Change Conference in Paris in December 2015 was attended by representatives from 195 countries and was the largest and most significant UN climate change conference to date.

The key outcome was the Paris Agreement – a deal to limit global temperature rises to 2°C (ideally 1.5°C) and the first global agreement on climate change that involves emissions reduction commitments by all countries. While many aspects of the Agreement are not legally binding, the long-term goals send a clear message that the world’s governments are collectively increasing their ambition and intent to mitigate climate change.

The Paris Agreement has clear implications for organisations. While countries will differ in terms of the legislation they will enact to meet their commitments, overall it provides a strong

impetus for the transition to a low carbon economy and will create new markets for low carbon technologies and services.



### VOLUNTARY INITIATIVES

Against the backdrop of growing consensus that urgent action is needed, a range of initiatives have emerged to help companies mitigate their own impacts as well as adapt to the effect of climate change on their businesses.

These include the **Carbon Disclosure Project** (CDP), which aims to motivate organisations to disclose their greenhouse gas emissions and strategies for managing climate change. The project’s collection of environmental information on thousands of organisations worldwide enables the 800-plus institutional investors who back the project to use the data in their analyses, and thus the initiative plays an important role in driving emissions reductions.

Developed by the World Resources Institute and World Business Council on Sustainable Development, the **GHG Protocol** is a global standard for measuring, managing and reporting emissions. It is the most widely used international accounting tool for governments and business leaders to understand, quantify and manage their greenhouse gas emissions, and serves as a foundation for many standards and reduction programmes worldwide.

There are now a number of advocacy groups with business members that are working on climate change. One that is global in its reach is **We Mean Business** - a coalition of organisations working with thousands of the world’s businesses and investors to provide a common platform to amplify the business voice, catalyse bold climate action by all, and promote smart policy frameworks.

<sup>1</sup> Intergovernmental Panel on Climate Change *Synthesis Report*, 2nd November 2014

## DRIVERS AND CHALLENGES

Climate change is arguably the gravest threat we currently face, and it demands urgent and decisive action. The sporting goods industry in particular faces a range of specific – and growing – climate-related risks, which together provide a compelling basis for members to take steps to mitigate both their exposure and their impact.

Firstly, in the wake of the Paris Agreement, businesses in many countries will have a vital role to play in meeting their governments' carbon reduction commitments. With this in mind, an important factor for members to consider and plan for is the potential for sudden, unforeseen changes in regulation in their sourcing or distribution markets that impact their businesses.

Climate change also presents a range of material risks. Many manufacturers are located in parts of the world that are particularly vulnerable to – and in many cases already feeling the effects of – the physical impacts of climate change. These include extreme weather events that result in loss of stock or increased production time, or create labour instability. For brands – especially those with exposure to several affected regions – this can lead to disruptions in supply, while for the

manufacturers themselves it can significantly impact profitability and business continuity.

Climate change may also lead to a shortage of the raw materials used in the manufacture of sporting goods, making them more expensive and ultimately leading to the need to find alternatives. It may also result in a shortage of the necessary natural resources. In particular, raw material processing requires large amounts of water, and several manufacturers within the industry are located in areas that are becoming increasingly water scarce.

Other potential climate-related risks for our members are that consumer purchasing power may be affected and needs may shift as a result of changing weather patterns that impact buying cycles and demand. Warmer winters, for example, are likely to lead to falling sales of winter clothes and a need for companies to anticipate changes and adapt accordingly.

For the larger, more visible, brands in particular, there are also reputational drivers. As climate change becomes higher profile, and its effects more widely felt, companies in high-impact industries that are perceived not to take responsibility may suffer reputational damage. Conversely, companies that acknowledge their impacts and demonstrate both a willingness and ability to mitigate them are laying the foundations for future success.

### CHALLENGES FOR OUR MEMBERS

Nonetheless, members wishing to take steps both to protect themselves from the effects of climate change and to reduce their own impacts do face real and significant challenges, not least that of identifying priorities: where the main impacts are, where they are most vulnerable, and what the most effective interventions are. For companies at all stages of the supply chain, this takes time and demands a long-term perspective.

Cost and resource are also factors. For manufacturers, the cost of investing in lower carbon technology can be prohibitive, particularly if the company does not have a supportive senior management team or cannot adequately demonstrate the expected return on investment. Meanwhile, brands that have a large number of suppliers may lack the resource to offer adequate support.

The prevalence of other, more demonstrably urgent, issues may also be a hindrance. For members that have limited resources, climate change may not appear to be a high priority, especially as it is currently less likely to attract pressure for action from customers.



## WHAT WE THINK

Climate change both affects, and is affected by, all our members. As such, all have a contribution to make. Moreover, in our view, our industry has a particular responsibility to take action, given that the promotion of wellbeing and enjoyment of nature are central to the practice of sport.

We believe that all members should take steps to develop resilience to climate change by reducing their own impacts and improving their ability to adapt to a changing climate. This begins with identifying priorities – assessing which activities are responsible for the highest greenhouse gas emissions and where the greatest vulnerabilities lie – followed by considering the most effective interventions. This may involve consulting with relevant external experts.

Brands and retailers should show leadership by reducing the direct impact of their operations. This includes implementing energy efficiency measures – such as energy efficient IT, lighting, and heating and cooling systems – as well as promoting water efficiency and managing waste.

A brand's climate change impact is predominantly in its supply chain, however, so brands should also integrate climate considerations into their sourcing processes. This may include helping suppliers to reduce their emissions, adopt energy efficiency measures and implement renewable energy programmes, as well as to develop more climate-resilient infrastructure. This is all the more important for members whose supply chains are particularly carbon intensive.

Manufacturers should invest in renewable energy and new technology to improve their efficiency and reduce their climate impacts. To protect their security of supply, they should consider moving towards lower-impact, or recycled, raw materials. Manufacturers should also focus on building relevant infrastructure so as to minimise the consequences of their exposure to climate change risks.

### BENEFITS OF TACKLING THE ISSUE

While these measures may sound ambitious, we believe the benefits of taking a proactive approach are significant.

These include the ability to anticipate and prepare for an increase in legislation – a strong likelihood following the Paris Agreement – as well as the opportunities to cut costs by

reducing emissions and promoting greater efficiency. Businesses that act quickly and decisively also have the opportunity to build greater resilience and promote increased supply chain stability.

We also believe that acting quickly and decisively yields opportunities to develop and demonstrate capacity for innovation, through reducing the impact of manufacturing processes, exploring alternative materials, and applying closed-loop principles to operations and product design.

### SUPPORTING OUR MEMBERS

As the representative body for the sporting goods industry, we are keen to support and assist our members to navigate this challenging topic.

The WFSGI also provides a range of valuable information and advisory services to assist its members with their reporting and other CR challenges. These include:

- Ad-hoc support to members through the CR Helpdesk;
- Alerting members on important legal developments and regulatory changes;
- Guidance and direction on CR developments and best practices.

A further benefit of WFSGI membership is the support available from other members. The network offers the scope for smaller forums of member companies to support each other on reporting and other common challenges, and for larger organisations to mentor comparable smaller companies.

### BSR'S FRAMEWORK FOR DEVELOPING A CLIMATE-RESILIENT SUPPLY CHAIN<sup>2</sup>

- **Identify supply chain priorities** – areas of high emissions and high climate vulnerability. Assess the mix of potential interventions that can best address the risks.
- **Take action and develop targets** – integrate climate considerations into sourcing processes, engage suppliers and consider joining collaborative initiatives. Take an inventory of what the business, suppliers and other stakeholders are already doing.
- **Evaluate impact** – monitor, evaluate and report to understand how well actions are working.

<sup>2</sup> Business Action for Climate-Resilient Supply Chains: A Practical Framework from Identifying Priorities to Evaluating Impact, BSR, May 2015

## CASE STUDY: THE HIRDARAMANI GROUP

The Hirdaramani Group is blazing a trail for manufacturers keen to adapt their businesses to the reality of climate change by building the world's first custom-built green apparel factory, which went on to become the first carbon neutral factory in Asia.

### THE BACKGROUND

Based in Sri Lanka and operating across four countries, predominantly in Asia, the Hirdaramani Group is no stranger to the growing impact of climate change, with the region becoming increasingly vulnerable to extreme weather conditions. This situation, coupled with the company's long commitment to responsible business conduct, led to the adoption of an ambitious sustainability mission and strategy based around four key areas – water, waste, energy and biodiversity – which is now formally linked to UN Sustainable Development goals.

### BUILDING A SUSTAINABLE FACTORY

The Hirdaramani Group wanted to go further, however, and the directors' ambition to build a sustainable factory was birthed in 2005. The factory, named 'Mihila' (meaning Earth), was built according to LEED (Leadership in Energy and Environmental Design) guidelines and completed in 2008. The incorporation of a range of innovative energy saving, water saving, waste management and biodiversity improvement measures led to it achieving Gold LEED certification the following year.

Three years later, in 2012, Mihila made history again by becoming the first apparel factory in Asia to achieve CarbonNeutral® certification, through a combination of ambitious internal energy efficiency measures and external carbon offsets.

### THE BENEFITS

The Hirdaramani Group has derived a number of benefits from its actions, not least the opportunity to be a leader and to set a strong example for others. Additionally, through implementing energy and water saving measures, and improving efficiency over time, Mihila now uses 48% less energy and 70% less water than conventional factories, enabling it to produce more apparel with the same amount of energy.

The company can also point to greater staff retention at Mihila than at any of its other factories, a factor that it believes has increased their overall skill level, improved efficiency and enabled them to produce more complex items.

### A GROWING AMBITION

Capitalising on the momentum created by the success of the Mihila factory, the Hirdaramani Group has also set about applying its experience to improving the sustainability of its other facilities. The priority was to expand LEED certification to existing factories – the company now has five LEED certified facilities in Sri Lanka, five in Bangladesh and two in Vietnam, and its new factory in Ethiopia will also be certified.

Moreover, each factory is obliged to implement specific policies focused on energy and water conservation and waste reduction. One facility has begun investing in green energy, while another already offsets its outstanding emissions, and the company's ambition is to become fully carbon neutral by 2020.

And the Hirdaramani Group is sharing its experience and expertise beyond its own facilities, by supporting other partners – including key universities of Sri Lanka, Thailand and the Maldives – eager to learn from a sustainable facility.

### SUCCESS FACTORS

The Hirdaramani Group's success over the last decade is due largely to the engagement of its senior management team, which has been unwaveringly committed to promoting sustainability. The commitment of the rest of the workforce has been no less important, however. From daily feedback on energy use to competitions to find new solutions, employees are given every opportunity and encouragement to help make the company's ambitions a reality.

The commitment of the company to taking a long-term view of success has also been significant. This included, for example, accepting the higher cost of building a sustainable factory – believing that this cost would be recouped in the years to come – and investing in the newest technologies in order to maximise efficiencies.

## ONGOING DEVELOPMENTS & NEXT STEPS

Over the coming years we believe that a number of factors will collectively compel more urgent and decisive action on climate change by all types of organisation.

First, we believe that the physical impacts of climate change – including extreme weather events and scarcity of raw materials and natural resources – will be increasingly widely felt.

Second, over time conventional energy is likely to become less readily available and more expensive. Not only will this force action as organisations seek to reduce their costs, but it may also prompt more regulation.

We also expect to see increased legislation in the markets in which our members operate, as governments demand the contribution of businesses and other organisations in meeting their commitments under the Paris Agreement. This will see members required by law to take steps to reduce their greenhouse gas emissions and other climate change impacts.

As a result of these factors, we expect to see companies increasingly seeking the services of consultants and other experts to help them meet their obligations.

### SUMMARY AND CONCLUSION

The WFSGI provides a platform for sharing best practices and actively engages members in realising a CR vision grounded in shared values and principles. As an association, WFSGI is both a voice for the industry and a trusted advisor on CR and strategy issues for its members. We believe that members that take up and act on the advice and resources WFSGI offers will be the best positioned to respond and thrive in the face of emerging trends and evolving regulation over the coming years.

We appreciate the challenges of complexity, diversity and evolving context in which our members operate. However, we believe that climate change is such a critical issue for the global community that all members must take seriously their responsibility to minimise their impacts and be prepared to invest in it – and that there are strong and growing business imperatives to do so. We also believe that industry-wide collaboration has an important part to play.

As the voice of the industry, we will continue to monitor trends, build our understanding of emerging best practice, and support our members to make progress in this important area.

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### FURTHER INFORMATION

IPCC *Synthesis* Report

[https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR\\_AR5\\_FINAL\\_full\\_wcover.pdf](https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR_AR5_FINAL_full_wcover.pdf)

The Paris Agreement

[www.unfccc.int/paris\\_agreement/9485.php](http://www.unfccc.int/paris_agreement/9485.php)

Carbon Disclosure Project

[www.cdp.net](http://www.cdp.net)

Greenhouse Gas Protocol

[www.ghgprotocol.org](http://www.ghgprotocol.org)

We Mean Business

[www.wemeanbusinesscoalition.org](http://www.wemeanbusinesscoalition.org)

Sustainable Apparel Coalition

[www.apparelcoalition.org](http://www.apparelcoalition.org)

BSR report on Business Action for Climate-Resilient Supply Chains

[https://www.bsr.org/reports/BSR\\_Report\\_Climate\\_Resilient\\_Supply\\_Chains.pdf](https://www.bsr.org/reports/BSR_Report_Climate_Resilient_Supply_Chains.pdf)



## **WFSGI – WORLD FEDERATION OF THE SPORTING GOODS INDUSTRY**

Obere Zollgasse 75,  
P.O.Box 1664, 3072  
Ostermundigen/Bern, Switzerland

23B, Greenbelt Court  
Discovery Bay, Lantau Island  
NT, Hong Kong

Phone +41 31 939 60 61

Fax +41 31 93960 69

[www.wfsgi.org](http://www.wfsgi.org)

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