FT BIG READ. EUROPEAN ECONOMY

Officials and companies fear the cost and administrative burden of complying with new requirements under the EU's Green Deal climate law is holding back the bloc's competitiveness. *By Alice Hancock*

Europe's red tape problem

Before selling a single bra in the EU, the Italian lingerie maker Yamamay will soon have to provide a wealth of data on what it will be made of, who will make it and what it will cost the planet.

Production of the company's popular underwear ranges used to start with a sketch to get the aesthetics right before finding the fabric. "Nowadays it's the opposite," says Barbara Cimmino, Yamamay's head of corporate social responsibility. "We have had to totally change the way we work."

Before starting on design, the company's research and development team now selects fabrics such as the satin-like charmeuse that it uses to make its Principessa bra range, and accounts for all the environmental and social impacts.

This is partly driven by Yamamay's own sustainability agenda — but it will soon be mandatory in order to comply with a new regulation governing the sustainable design of products, agreed by Brussels this year and due to be fully implemented in the late 2020s.

"It is very, very difficult," Cimmino says.

The driver of this increased paperwork is the EU's sprawling Green Deal climate law of which the ecodesign regulation is a part. Announced in 2019, the Green Deal aims to drive the EU to net zero emissions by 2050 and rewire the bloc's economy from one that is driven by consumption to one based on recycling, reuse and longevity.

But it has also turned out to be a bureaucratic machine that has spawned reams of legislation that businesses across the EU are struggling to implement, or even understand.

Between 2019 and 2024, the European Commission proposed more than 70 laws under the Green Deal umbrella, according to Pascal Canfin, former chair of the European parliament's environment committee. And this does not include hundreds of pieces of technical secondary legislation or other initiatives affecting business such as new rules governing data, digital technologies and finance.

The impact is being felt across the EU's 24mn small and medium enterprises. A survey by the commission itself found that just 15 of the Green Deal laws announced in 2022 would result in more than €2.3bn in extra administrative costs to businesses.

This has also triggered a fresh round of concern about red tape and bureaucratic over-reach from Brussels smothering the bloc's competitiveness, just as other global rivals are rapidly eating into the continent's share of global output. EU GDP growth is about half the global average.

"The feeling is that it is just reporting for the sake of reporting," Alexander De Croo, Belgium's prime minister, tells the Financial Times. "It stifles entrepreneurship, it stifles innovation . . . [it] is definitely one of the elements that reduces GDP growth."

The weight of red tape is set to be addressed in a landmark report published today on the EU's competitiveness authored by former Italian premier and European Central Bank chief Mario Draghi.

The paper, which runs to 400 pages, will suggest making changes to the early stages of the bloc's legislative process, according to an EU official, including subjecting each new law to a "regulatory burden check". It might take a "paradigm shift" for EU policymakers to realise "we don't always need legislation", the official says.

This is a "really important exercise", says Sylvie Matelly, director of the Jacques Delors Institute, a Paris-based think-tank, especially in the context of Europe's ambition to compete with the US and China in the industries and technologies set to define the 21st century.

"The EU probably more than anywhere else in the world [wants] deregulation and freedom in business and more open markets," she says. "We really need to think about this."

The incoming legislation has implications for sectors across the EU, but they are particularly acute for the 197,000 companies that make up the bloc's textile industry.

With 1.3mn employees, the industry is the world's second-biggest exporter of clothes and textiles by value after China.

Before 2019, the sector was not heavily regulated but will soon be subject to 16 new pieces of primary legislation under the Green Deal, governing everything from microplastics to financial reporting.

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Businesses, particularly large companies, will be expected to gather and report data on water use, energy consumption, labour conditions, waste, chemical use and emissions throughout much of their supply chain.

"The environmental and business impact is massive," says Mauro Scalia, director of sustainable businesses at industry body Euratex.

Many in the industry welcome moves to make the industry greener. "You need regulation to shift financial incentives towards governance and other values rather than short-term profits," says August Bard Bringéus, co-founder of Asket, a Swedish fashion label that designs only 50 garments for its menswear collection, in contrast to the vast churn of fast-fashion brands. "If you understand where every component has come from you force brands to better consider their products."

At Yamamay, which is headquartered in northern Italy near Milan, Cimmino says that the sector was well overdue an overhaul of its sustainability practices. "The truth is we need these regulations in order to change," she admits. "We haven't changed this industry in 500 years."

The company, which employs almost 900 people with a turnover of €145mn in 2023, has focused on a sustainability agenda since its founding in 2001.

But the company's ongoing internal analysis on the data needed to comply with new EU reporting rules shows that, despite an early start, only about 40 per cent of 1,000 relevant data points required are already on their system.

In response, Yamamay has beefed up its R&D department from three to six people, and now runs a full-time corporate sustainability team of four. Cimmino says for her personally, it has meant longer working days. "There are at least one to two hours per day we need to spend with these new regulations because the changes are so fast."

The time participating in industry working groups and meeting policymakers and politicians in Rome and Brussels has also increased, she says.

For fashion labels, regulatory changes additionally mean much lengthier meetings and closer collaboration with suppliers.

Andrea Crespi, managing director at the fabric manufacturer Eurojersey, which supplies Yamamay as well as brands such as Calvin Klein and Lululemon, says that he has regular discussions with Cimmino to measure the impact of garments.

But doing so is not easy or cheap in an industry with very low margins. Eurojersey has invested €100mn in improving sustainability at its factory just outside Milan, including measuring instruments that check the energy and water consumption of "every single machine".

The sustainability agenda means "a good 5 to 7 per cent extra cost," Crespi says, "which at the moment we are never able to turn to the market".

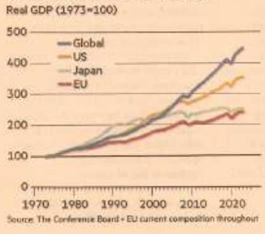
Few large companies in the sector have full visibility over their supply chains, says one sustainability consultant who recently worked for a big European fashion house. "They work with a middle man, who works with a middle man, who works with a middle man and, to be honest, they haven't wanted to look at their factories."

Large businesses, which are subject to extensive environmental and social reporting requirements, often require external help to meet them, she adds: the rules are "100 per cent a cash cow for consultants".

In a study, the consultancy SB+CO found that many large companies were willing to risk fines rather than comply during the uncertain early years of the regulations, in order to avoid incurring "expensive advisory fees" and sucking time out of the business.

Economic growth in the EU has been slower than in the US and Japan

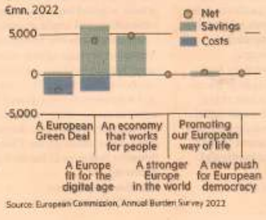
Real GDP (1973=100)



Source: The Conference Board • EU current composition throughout

The EU's green legislation is the only policy area that has resulted in a net cost deficit

€mn, 2022



Source: European Commission, Annual Burden Survey 2022

The challenge is even harder for the 89 per cent of businesses in the textile industry that are microenterprises, with scant resources to hire consultants, make significant changes or even gather data.

"An entrepreneur can spend nine to 16 hours processing administrative requests from local authorities . . . That is taking a lot of productive time away from their schedule," says Véronique Willems, secretary-general of the trade group SMEunited.

Although SMEs are largely exempt from many of the regulations, they are affected "de facto because they are part of value chains", Willems adds. Cimmino says Yamamay "for sure" has had to drop suppliers that cannot meet the requirements.

Many of Euratex's member companies are "concerned that producing in Europe is still uncompetitive", Scalia says. One executive puts it more bluntly: "People are panicking like crazy."

Concerns over the amount of paperwork churned out by "unelected bureaucrats" have long bedevilled Brussels, despite its core administration being just 3 per cent the size of the US government.

Indeed, improving competitiveness has been a priority at least as far back as the bloc's 2007 Lisbon treaty. The stakes are high; a paper published by the Dutch, Swedish, British and German advisory bodies on regulation in 2011 warned that "transparent procedures and smart regulation" would be necessary to maintain "support of the EU as a positive institution for growth".

The commission has announced various initiatives in recent years to try to slash red tape, such as a "one in, one out" rule for new laws and a commitment to cut reporting requirements by 25 per cent.

The issue was also acknowledged by commission president Ursula von der Leyen in the priorities she set out in July for the new term of the European Commission, which will start later this year.

Business should be "easier and faster in Europe" with "less red tape and reporting", she admitted in her document of political guidelines for the next mandate, which ran to 30 pages.

The job of tackling bureaucracy would be taken on, she proposed, by a new vice-president for "implementation, simplification and interinstitutional relations".

But the way that EU legislation works presents a challenge. The commission comes up with a proposal for a directive or a regulation, which is then sent to each EU member state and the European parliament for them to work separately on changes to the bill.

Increased paperwork has triggered a fresh round of concern about bureaucratic over-reach from Brussels at a time when global rivals are rapidly eating into the continent's share of output

FT montage

> 'You need regulation to shift financial incentives towards governance and other values rather than short-term profits'

Once the parliament and member states have agreed their own positions — often with long lists of amendments that pertain to national interests — they will then come together to negotiate the final shape of the law.

Regulations must then be transposed directly into member state law, while directives can be adopted more loosely — often setting targets that governments can add to or decide themselves how to achieve.

Negotiations over amendments can take months — sometimes years — by which time small businesses in particular may have lost track of where in the process the legislation actually is.

Bard Bringéus of Asket says that, as a small business, they have to constantly scan trade publications to keep up with the changes. "Right now we're reactive," he says, adding that the way that legislative changes were being communicated is "not good enough".

Enrico Letta, the former Italian premier who was commissioned to look into the future of the EU single market, blamed this "gold plating" of legislation by member states for fragmenting the internal market.

"Over-regulation places significant additional costs on businesses, proving unsustainable for SMEs and inadvertently favouring non-European companies that are not bound by the same stringent rules," his report, published in April, said.

This came to life for Asket when French authorities introduced a new recycling label that meant the company had to relabel all of its products going to France — at short notice and extra cost.

In recognition of the complexity of the legislative process, Draghi's report is expected to call for changes not only to policymaking, but also the structure of the EU's institutions and how they work together — "a 360-degree reform that involves all the actors," an EU diplomat briefed on the report says.

But some fear that the report could be quickly forgotten about if its conclusions are not swiftly acted upon. Letta's report on the EU single market has been little talked of since.

In the meantime, Euratex's Scalia warns, textile companies will seek cost efficiencies, which portends a possible wave of consolidation in the industry.

For companies managing day to day, "it's difficult to process all this information . . . it's overwhelming", he says. "The commission has put a lot of meat on the grill, more than anyone could possibly eat."

Additional reporting by Paola Tamma