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Research Article

Sustainability Challenges and Opportunities in Luxury Fashion: A Response to Policy Deregulation in the United States

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ABSTRACT

This commentary explores the implications of recent U.S. policy shifts on the luxury fashion industry, including withdrawal from the Paris Climate Agreement and dismantling of Diversity, Equity, and Inclusion (DEI) initiatives. It highlights the challenges for American brands competing in European markets with stricter sustainability frameworks. The analysis underscores the importance of aligning with European standards, adopting sustainable supply chains, and leveraging technologies like Digital Product Passports to ensure compliance and consumer trust. By examining examples from leading luxury brands, the commentary outlines strategies for navigating regulatory disparities and proposes relevant research questions warranting investigation.

KEYWORDS

Paris Climate Agreement, Luxury Fashion, Corporate Sustainability Reporting Directive, Diversity, Equity, Inclusion

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1. Introduction

On January 20, 2025, President Donald Trump signed executive orders initiating the United States' withdrawal from the Paris Agreement and dismantling Diversity, Equity, and Inclusion (DEI) initiatives (Associated Press, 2025). The Paris Agreement, adopted in 2015, is a legally binding international treaty aimed at limiting global warming to well below 2°C, with efforts to stay within 1.5°C (United Nations Framework Convention on Climate Change, 2015). These policy shifts significantly alter the regulatory landscape, creating a stark contrast between U.S. and European approaches to sustainability (Smith, 2025). While deregulation may offer short-term operational flexibility for American firms, it risks isolating them from European markets that prioritize stringent environmental and social standards under frameworks such as the European Union's Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD) (European Commission, 2023a; European Commission, 2023b). These regulations impose stringent requirements on companies operating within the EU, including non-EU entities meeting specific turnover thresholds. Included in this legislative mandate is a requirement that companies integrate sustainability into their operations, enhance transparency through comprehensive reporting, and ensure accountability across their supply chains. Non-EU companies generating significant turnover within the EU are obligated to comply with these standards to maintain market access. This includes conducting due diligence to identify and address adverse human rights and environmental impacts associated with their activities.

While regulatory divergence presents operational challenges, the financial stakes for non-compliance are equally pressing, with significant penalties and market

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access risks for luxury brands operating in the European Union. For instance, the CSDDD imposes strict due diligence obligations on non-EU companies having significant turnover within the region. Baker McKenzie (2024), a leading international law firm, outlines that failure to comply with these regulations can result in penalties of at least five percent of a company's net worldwide turnover, creating significant financial exposure for major U.S. luxury brands such as Ralph Lauren and Tapestry Inc [1].

Ralph Lauren reported a global revenue of approximately $6.6 billion for the fiscal year ending March 2024 (Ralph Lauren, 2024). In the third quarter of fiscal 2025, Ralph Lauren continued its strong performance, reporting higher-than-expected holiday sales and raising its full-year outlook (Business Wire, 2025). According to Yannaca-Small et al. (2024), a prominent U.S. law firm specializing in regulatory compliance, a fine of five percent under the CSDDD could exceed $330 million for a large multinational brand, highlighting the substantial financial risk associated with non-compliance. In addition to monetary penalties, Baker McKenzie (2024) further notes that non-compliant brands risk facing product bans within the European Union, a consequence that could significantly impact companies reliant on European consumers and distribution networks. At the same time, European luxury consumers increasingly demand high sustainability standards, and failure to meet these expectations could erode brand equity.

Additionally, research indicates that European consumers are becoming more aware of the environmental impact of traditional fashion industry practices, with sustainability emerging as a key purchasing criterion (McKinsey & Company, 2023). The case of Tapestry Inc., which reported a forty-five percent increase in European sales in the quarter ending December 28, 2024, highlights the European Union's growing importance as a strategic luxury market (Reuters, 2025). Losing even a fraction of this market due to sustainability non-compliance could translate into substantial revenue losses, particularly as European regulatory enforcement increases in the coming years. This underscores how sustainability is not merely a regulatory hurdle but a crucial driver of competitive positioning in the luxury market.

Beyond short-term risks, the long-term financial consequences of regulatory misalignment could be even more severe. Analysts estimate that upcoming sustainability regulations could put a significant portion of earnings before interest and taxes at risk for brands that fail to comply (Yannaca-Small et al., 2024). Hypothetically, for a luxury company with five hundred million dollars in annual profit, this would equate to forty million dollars in annual lost earnings, compounded over multiple years. Furthermore, persistent non-compliance could result in total exclusion from the European Union market, a region accounting for a significant share of global luxury sales. While specific regional sales figures for Ralph Lauren in the European Union are not publicly available, Europe is a key growth market for the company, and any loss of market access could result in a significant revenue contraction (Ralph Lauren, 2024).

The upfront costs of compliance, including investments in supply chain transparency, digital product passports, and Environmental, Social, and Governance reporting, appear to be significant but manageable compared to the potential financial repercussions of non-compliance. While precise estimates of compliance costs vary, industry analysts suggest that proactive compliance investments are generally more cost-effective than the substantial fines and market access risks associated with non-compliance (McKinsey & Company, 2023). Given the European Union's leadership in setting global sustainability standards, U.S. luxury brands must weigh the cost of inaction against the substantial financial and operational risks posed by non-compliance (Yannaca-Small et al., 2024).

American luxury fashion brands will face mounting challenges in this complex regulatory environment. To remain competitive in the European Union, they must now align with European standards and laws and invest in sustainable supply chains to enhance not only compliance, but consumer trust. These strategies can mitigate

[1] The companies mentioned in this article, including Ralph Lauren, Tapestry Inc., Coach, Kate Spade, Stuart Weitzman, and others, are cited purely as illustrative examples to contextualize potential regulatory outcomes. No implication is made regarding their actual compliance status or any wrongdoing.

reputational risks and also position brands to meet European protocols and the expectations of environmentally and socially conscious consumers. By examining European and UK leadership in sustainability, including initiatives from Stella McCartney, Gucci, Prada, and LVMH, this commentary identifies actionable pathways for navigating cross-border regulatory disparities and advancing global competitiveness. The commentary addresses the role of innovation, consumer expectations, and cross-border regulatory compliance in shaping the industry's response to this evolving landscape.

The dismantling of DEI initiatives in the United States poses additional significant challenges for luxury brands aiming to maintain relevance among younger, socially conscious consumers. Research indicates that European and American luxury consumers differ significantly in their sustainability and DEI priorities. European consumers often prioritize environmentally focused sustainability measures, such as carbon neutrality and circular economy practices, and value transparent supply chains that align with stringent regional regulations like the CSRD (Jones Day, 2025; Luxonomy, 2024). In contrast, American consumers, while increasingly valuing sustainability, place a higher emphasis on inclusivity and brand alignment with social causes such as gender and racial equality (D'Arpizio et al., 2024). These differing priorities highlight the need for U.S. brands to balance environmental and social sustainability to resonate globally.

Regardless of where consumers reside, both Millennials (born between 1981 and 1996) and Generation Z (born between 1997 and 2012) are key demographic groups driving growth in luxury consumption. These young consumers increasingly prioritize inclusivity and social responsibility in their purchasing decisions (D'Arpizio et al., 2024; Teerakapibal and Schlegelmilch, 2024). This generational shift underscores the growing importance of workplace and marketing strategies that prioritize inclusivity, creativity, and innovation, ensuring long-term competitiveness in the luxury sector. Additionally, research underscores the importance of DEI in fostering creativity and innovation, which are critical for long-term competitiveness (Creary, 2020; Seramount, 2024). For instance, McKinsey & Company (2023) highlights that organizations with greater gender and ethnic diversity are twenty-five percent more likely to outperform their peers in profitability.

Saha et al. (2024) further indicate that brands that implement robust DEI strategies have been shown to achieve higher levels of employee satisfaction and consumer loyalty. As U.S. luxury firms face mounting pressure to compete in markets where DEI remains a priority, they must proactively invest in socially responsible workplace practices and marketing strategies that emphasize authenticity and inclusivity. Failing to address these shifts risks alienating a growing segment of values-driven consumers, potentially undermining brand perception and market share. While American brands are making progress, European counterparts, supported by more stringent regulations, have set a benchmark in aligning operations with sustainability goals.

2. European Leadership in Sustainability

European and UK luxury brands have emerged as leaders in sustainability through proactive adoption of environmentally and socially responsible practices and protocols. For example, the Stella McCartney luxury brand exemplified this commitment by incorporating Ecopel's KOBA® Fur-Free Fur, a bio-based faux fur made with recycled polyester and up to 100 percent plant-based fibers, into collections. McCartney has also been a pioneer in using regenerated nylon made from waste materials like fishing nets and carpet flooring, further reducing reliance on virgin materials. Additionally, her stores and studios use renewable energy, demonstrating a comprehensive approach to sustainability that pervades all of the brand's products (Ecopel, n.d.; Stella McCartney.com, 2025; Textile World, 2019).

Similarly, luxury brand Gucci, in partnership with Coty, introduced "Where My Heart Beats," the first globally distributed perfume manufactured using alcohol derived entirely from recycled carbon emissions. This innovation reduces water usage and eliminates reliance on agricultural land compared to traditional methods (Gucci.com, 2025). Furthermore, Gucci has achieved carbon neutrality across its operations since 2018 by utilizing 100% renewable energy (Gucci Equilibrium, 2023). Luxury brands Prada and LVMH further illustrate European leadership on sustainability initiatives (Degn, 2023). Prada pioneered sustainability-linked bonds, incentivizing environmental goals through financial benefits tied to meeting key sustainability performance indicators (PradaGroup, 2019; UniCredit-Group, 2021). Meanwhile, LVMH's Life 360 program integrates creative circularity, biodiversity protection, and transparency into its operations, setting a benchmark for the industry (McKinsey & Company, 2023).

European regulations further bolster this leadership. For example, the Digital Product Passport (DPP), introduced by the European Commission (2024), aims to enhance transparency by requiring detailed tracking of a product's lifecycle. This initiative facilitates informed consumer choices and supports circular economy practices by providing critical information on the sustainability and recyclability of products (European Commission, 2024). Additionally, the European Union's ban on the destruction of unsold textiles promotes waste reduction and encourages sustainable inventory management practices, aligning with the broader goals of a circular economy (European Commission, 2024).

3. Implications for American Luxury Brands

Some American luxury brands are already making strides in their sustainability initiatives. Ralph Lauren, which has pledged to source 100 percent sustainable cotton by 2025 (Ralph Lauren, 2024), and Tiffany Co., known for its efforts in responsible sourcing of precious metals and gemstones (Tiffany & Co., 2024), demonstrate how aligning operations with inclusive and sustainable practices can strengthen brand equity.

However, for some American luxury firms, deregulation under the new administration has the potential to complicate their ability to align with European standards. The rollback of DEI initiatives and environmental commitments undermines progress in areas that are increasingly tied to global consumer expectations and regulatory compliance (Cervellon and Drylie Carey, 2021). In the European Union, the principles of Diversity, Equity, and Inclusion (DEI) are supported by several key directives aimed at ensuring equal treatment and combating discrimination. The Racial Equality Directive (2000/43/EC) prohibits discrimination based on racial or ethnic origin in employment, education, and access to goods and services. Similarly, the Employment Equality Framework Directive (2000/78/EC) establishes a framework to prevent discrimination in employment and occupation, covering religion or belief, disability, age, and sexual orientation. These directives require organizations operating in EU member states to promote equality and non-discrimination, aligning closely with DEI objectives (European Union, 2000a; European Union, 2000b).

Even successful companies may face challenges due to deregulation, including companies like Tapestry, Inc., the parent company of Coach, Kate Spade, and Stuart Weitzman. Tapestry has set ambitious sustainability and diversity goals, including reducing greenhouse gas emissions, increasing racial and ethnic representation in leadership positions, and implementing a $15 minimum wage for hourly employees. The company has also tied ten percent of its global leadership's annual incentive compensation to equity, inclusion, and diversity goals starting in 2022 (Driver, 2021). Some American luxury brands may find it increasingly difficult to maintain their sustainability and diversity initiatives in light of recent policy changes, depending on internal priorities and resource allocation. These examples underscore both the progress made by some American brands and the broader reputational challenges they face in maintaining these initiatives amidst policy changes.

In sum, to remain competitive in Europe, American brands will need to find a way of funding and proactively adopting the following:

- Voluntary Adherence to European Standards: Aligning with CSRD and CSDDD requirements, even if not mandated domestically, to ensure European market access and mitigate reputational risks.
- Innovating Sustainable Supply Chains: Investing in renewable energy, circular production models, and sustainable materials to meet European expectations and attract environmentally conscious consumers.
- Leveraging Digital Product Passports: Developing systems that comply with DPP requirements to enhance transparency and build consumer trust.

- Continuing to Strengthen DEI Commitments: Emphasizing social sustainability through inclusive workplace practices and marketing strategies, which are increasingly valued by global audiences (Saha et al., 2024). Furthermore, research underscores the importance of DEI initiatives in building organizational success and long-term consumer loyalty, particularly among younger demographics (Creary, 2020). Failure to address these challenges risks relegating American brands to secondary market status, as European consumers and regulators favor companies that demonstrate genuine commitments to sustainability (Hepner et al., 2021).

4. Navigating Regulatory Disparities

While European luxury brands benefit from a unified regulatory framework, U.S.-based companies face the dual burden of adapting to deregulation domestically and stricter standards abroad. Greenwashing, the practice of overstating environmental commitments, remains a critical risk. American brands must ensure transparency in their sustainability efforts to avoid legal penalties under European laws like the CSRD (Pantazi, 2024).

5. Conclusion and Research Questions

As American luxury brands navigate the complex interplay of domestic deregulation and European sustainability mandates, they must adopt innovative strategies to remain competitive. The following research questions can guide future exploration:

1. How can American luxury brands align their operations with European sustainability standards while managing domestic deregulation?
2. What role do consumer perceptions of authenticity and transparency play in shaping brand equity in the luxury sector?
3. What role do emerging technologies, such as Digital Product Passports, play in advancing sustainability efforts?
4. How can luxury firms leverage innovation in materials and supply chains to meet evolving global expectations?
5. What strategies can bridge the gap between DEI initiatives and operational performance in different regulatory environments?

Addressing these questions will not only inform future research but also equip luxury firms with the strategic foresight to navigate regulatory shifts while sustaining their competitive edge.

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Conflict of Interest

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