
ELLEN MACARTHUR FOUNDATION
THE FASHION REMODEL
THE NEW BOTTOM LINE
POLICY LEVERS TO SCALE RESALE AND REPAIR FOR FASHION

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ABOUT THIS REPORT

This report, written for policymakers, is part of The Fashion ReModel project, led by the Ellen MacArthur Foundation. It aims to contribute to the emerging policy conversation on enhancing the competitiveness of circular business models.

INDUSTRY SCOPE

This report focuses on post-consumer resale and repair business models for clothing. However, similar outcomes could be expected in other product categories, such as bags, accessories, and footwear. In addition, future implementation of the policies discussed in this report (in particular reduced sales tax or VAT rates) would likely focus on a wider range of second-hand products, beyond the fashion sector.

For the purposes of this report, the market segments were defined as follows:

- The **mass-market segment** represents the lower 91% of units sold annually within the selected markets, with an average price of EUR 13.50/USD 13.30/ CAD 21.00.
- The **high-end and luxury segment,** the higher 9% of units sold annually within the selected markets, with an average price of EUR 88.00/USD 86.80/ CAD 137.00.

Resale and repair were defined as follows:

- **Resale:** Broadly takes place on managed marketplaces, brand-led re-commerce platforms, and peer-to-peer resale,[1] both online and in-store.
- **Repair:** The restoring of products and/or their components back to a usable state. This report is specifically focused on retailer-led repair services.

GEOGRAPHICAL SCOPE

The data modelling and analytics included in this report focus on selected jurisdictions in the European Union (France, Germany, and Poland), the United States (State of California and State of Michigan), and Canada (Province of British Columbia). These markets were selected on the basis of their high clothing consumption levels and corresponding waste outputs. The findings in this report therefore reflect high-consumption market dynamics and do not reflect markets with lower consumption patterns.

PROJECT BOUNDARIES

The modelling carried out for this report is based on limited real-life data and assumptions pertaining to the costs and profit margins of resale and repair business models. Certain topics relevant to the textile industry are not covered in depth in this report and warrant further exploration. For example, the current labour market in the global resale and repair economy, potential job impacts of a circular economy transition in producing and supplier countries, and the risks associated with residual 'legacy' chemicals from historical production processes.

Initial modelling and stakeholder interviews with resale and repair businesses were undertaken by Eunomia Research & Consulting Ltd during the first phase of the project. All interviews were conducted under non-disclosure agreements. In the second phase, KnowlEdge Srl further refined and validated the economic model and carried out a comprehensive quality assurance process.

To quote this report, please use the following reference: Ellen MacArthur Foundation, *The new bottom line: Policy levers to scale resale & repair for fashion* (2026).

THE FASHION REMODEL

This report is part of The Fashion ReModel. The Fashion ReModel is the first time companies have joined a project with a shared focus on what it will take to begin to decouple revenue from resource extraction and implement circular business models at scale. The project works with brands, platforms, and retailers across high-end, activewear, mid-range, and mass-market. Participating businesses include Arc'teryx, Crystal S.A.S, DECATHLON, eBay, H&M Group, and its brands ARKET, COS and WEEKDAY, John Lewis, Primark, Reformation, Tapestry, and Zalando.

The Fashion ReModel participants are working to demonstrate commercial viability to inspire wider adoption. **The first year of the programme is showing promising results:** reported revenue growth from the first year of The Fashion ReModel suggests that these brands and retailers are scaling revenue from resale, rental, repair, and remaking **four times faster** than the broader revenue within the participating part of their business.[2]

However, this growth corresponds to a very limited share of the fashion market overall, and a small share of the total revenue for the thirteen participating businesses. Systemic barriers block the success of circular business models such as resale and repair from becoming an industry norm. Without policy intervention, resale and repair will remain disadvantaged by a regulatory environment that favours linear sales and volume.

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WHAT THIS REPORT MEANS FOR FINANCE AND ECONOMY MINISTRIES AND SECRETARIATS

This report is about incentive design and competitiveness. Current tax structures and economic policy frameworks favour linear, resource-intensive production, creating an incentive imbalance that disadvantages labour-intensive, domestically-anchored business models like resale and repair.

The modelling shows that targeted adjustments to sales tax/VAT, labour taxation, and EPR fees — instruments already within government control — can materially improve the economics of resale and repair. This has direct implications for:

- **Business resilience and diversification:** Circular business models can reduce reliance on virgin material inputs and global supply chains, supporting more resilient revenue streams and reducing exposure to input cost shocks.
- **Capital allocation:** Because investors typically appraise expected returns through the lens of net (post-tax) returns, targeted fiscal adjustments can significantly influence the allocation of capital towards labour-intensive, domestically-anchored activities.
- **Competitiveness:** The policy mix modelled in this report demonstrates substantial gross margin improvements for resale and repair business models, while introducing additional costs (via EPR) for linear models. This strengthens the relative competitiveness of circular business models that could deliver more local quality jobs with increased worker expertise, ultimately fostering more inclusive economic growth.[3]

WHAT THIS REPORT MEANS FOR ENVIRONMENT AND CLIMATE MINISTRIES AND SECRETARIATS

This report demonstrates that strengthening the commercial viability of resale and repair can drive market growth for circular models, which can in turn reduce primary resource extraction, waste volumes, and pollution impacts. By extending product lifetimes and decoupling revenue from resource extraction, circular business models can deliver substantially better environmental outcomes while anchoring value creation more locally within the economy.

These environmental gains are closely linked to economic outcomes that colleagues in finance and economy ministries are looking for:

- **Contribution to national climate targets:** By keeping products in use for longer, resale and repair business models can reduce demand for emissions-intensive primary production and lower consumption-based emissions.[4]
- **Easing pressure on public waste management systems:** Greater market share for resale and repair can reduce the volume of textiles entering waste streams and the related costs of waste collection and processing.
- **Supporting more resilient business models:** Expanding resale and repair can help businesses diversify income streams and reduce their exposure to sudden spikes in the price of the raw materials, energy, or labour required to produce goods and services.
- **Anchoring value locally:** Unlike linear systems, where a significant share of value is captured upstream in global supply chains, circular models can enable a greater proportion of value to be retained in national and regional economies. This contributes towards employment across retail services, logistics, sorting, laundry, repair, and digital platforms.

EXECUTIVE SUMMARY

Circular business models can break the link between economic growth and virgin resource extraction. In Canada, the European Union (EU), and the United States (US), businesses that resell and/or repair clothing are on the rise, successfully generating revenue while creating local job opportunities.[5]

However, circular business models are navigating markets and regulatory environments designed for a linear economy. Most fashion and textile companies are incentivised to use new resources rather than investing in processes that can help resources circulate for longer, as well as shifting production to lower-wage labour markets. This is because current tax structures tend to favour resource use over labour-intensive services. Resale businesses, on the other hand, face taxes at every transaction rather than at the original point of sale. This is in addition to high labour costs per unit, resulting in high labour taxation. This creates a structural incentive imbalance that extends beyond the textiles sector and is relevant to broader competitiveness strategies.

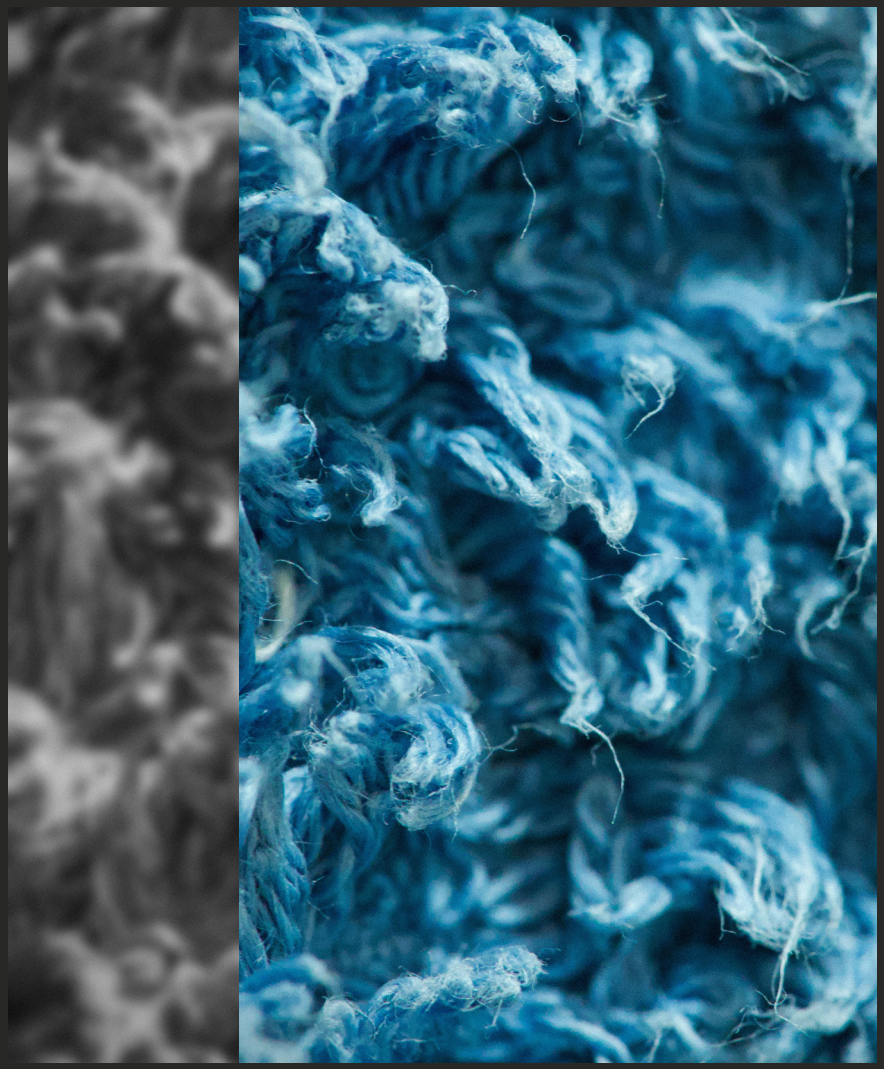
Resale and repair are inherently local and labour-intensive, and economic policy design directly shapes their competitiveness. Today, resale models can only compete when manual labour processes such as sorting and collection come at minimal or no cost. This typically takes the form of donations and unpaid user labour in peer-to-peer models. Many resale models externalise sorting to informal sector workers as well as non-profit organisations that operate on a cost coverage basis.

This report has modelled the effects of a targeted policy mix on the gross profit margin[6] as well as the market share[7] for resale and repair business models for clothing. The policy mix allows resale and repair businesses to:

1. Improve margins per unit — through **reduced or eliminated VAT or sales tax**
2. Reduce labour costs — through **lower labour taxes**
3. Benefit from producers paying more of the true costs of linear production — through ambitious **Extended Producer Responsibility** with financial incentives for resale and repair activities

In practice, these policy changes benefit circular business models in two primary ways:

- If businesses choose to retain the cost savings, they improve their profit margins and become more competitive against traditional linear models.
- If businesses choose to pass savings on to consumers through lower prices, they can capture a larger market share and drive volume.



With this mix of targeted incentives, policymakers can enhance the economic competitiveness for resale and repair. In Canada, the EU, and the US, the policies modelled can raise gross profit margins to up to 55% for resale, and to around 41% for repair — unlocking the commercial viability needed to scale. At the same time, the policy mix is not sufficient to close the profitability gap between circular and linear business models for every model and in every region. Over time, circular product design, capital investments in technology and infrastructure, and economies of scale can further improve the economics for circular business models.

The analysis shows that targeted adjustments to sales tax/VAT, labour taxation, and EPR fees — instruments already within government control — can materially improve the economics of resale and repair. Governments can improve cost-competitiveness without requiring entirely new regulatory architectures. What is needed now is coordinated policy action across finance, environment, and industry portfolios to rebalance the economics of fashion in favour of circular business models.

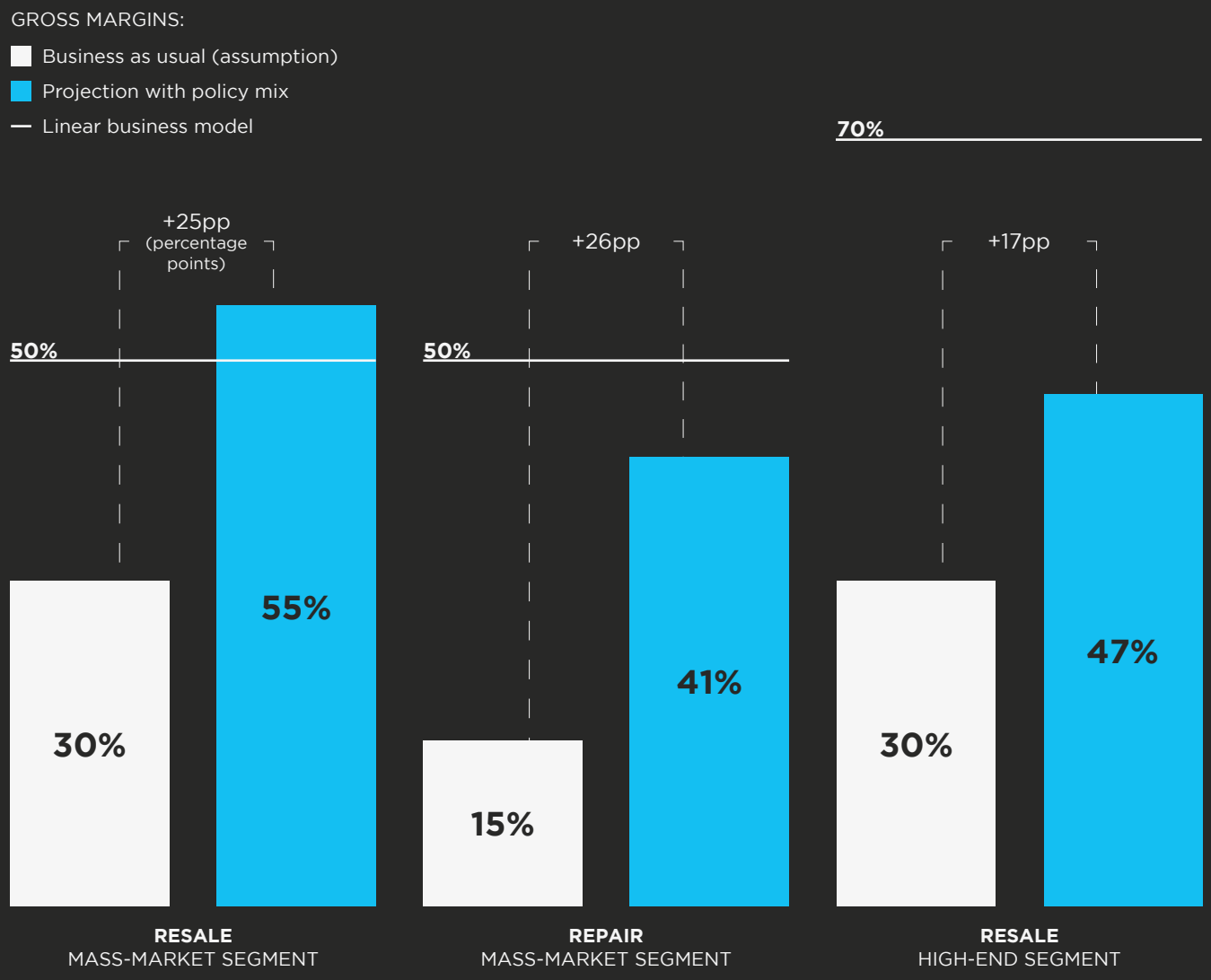
Resale and repair margins can reach up to

55%

with the policy mix in place

THE POLICY MIX LEADS TO MEANINGFUL INCREASES IN GROSS MARGINS ACROSS RESALE AND REPAIR

Assuming 100% of the policy mix benefit is retained as improved margins



01

FASHION BUSINESSES ARE NAVIGATING MARKETS BUILT FOR A LINEAR ECONOMY

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FASHION BUSINESSES ARE NAVIGATING MARKETS BUILT FOR A LINEAR ECONOMY

Circular business models, such as the resale and repair of clothing, can create service models with lower overall costs for consumers, while reducing the volume of textiles entering waste streams and the related costs of waste collection and processing. By decoupling revenue from resource extraction, circular business models can deliver substantially better environmental outcomes[8] while anchoring value creation more locally within the economy. But because global markets and regulations are largely geared toward a linear economy, circular business models often face challenges in scaling and reaching profitability.[9]

FASHION RESALE

Fashion resale is fast becoming a market driver.

In 2025, the worldwide second-hand market grew **13%,** capturing approximately **10%** of all clothing spend. It is expected to reach up to USD 393 billion by 2030.[10]

In the United States of America (US), the second-hand fashion market is growing **nearly 4 times faster** than the broader retail clothing market and increasing its market penetration, with **59%** of US consumers reporting a pre-owned clothing purchase within the last year.[11]

In Europe, countries like France, Poland, and the United Kingdom (UK) have established second-hand markets, making up approximately 10% of fashion spend in each.[12]

Despite this growth trajectory, according to players like ThredUp, The RealReal, and Vestiaire Collective, resale models struggle with complex logistical processes and high labour costs, and inconsistent or insufficient inflows of used goods, limiting scalability and profitability compared with supply chains optimised for traditional linear models.[13]

FASHION REPAIR

Fashion repair remains small and constrained, with low consumer visibility and limited investment.

There is currently insufficient data to accurately quantify the global size of the clothing repair market, highlighting the need to formalise, recognise, track, and support this sector.

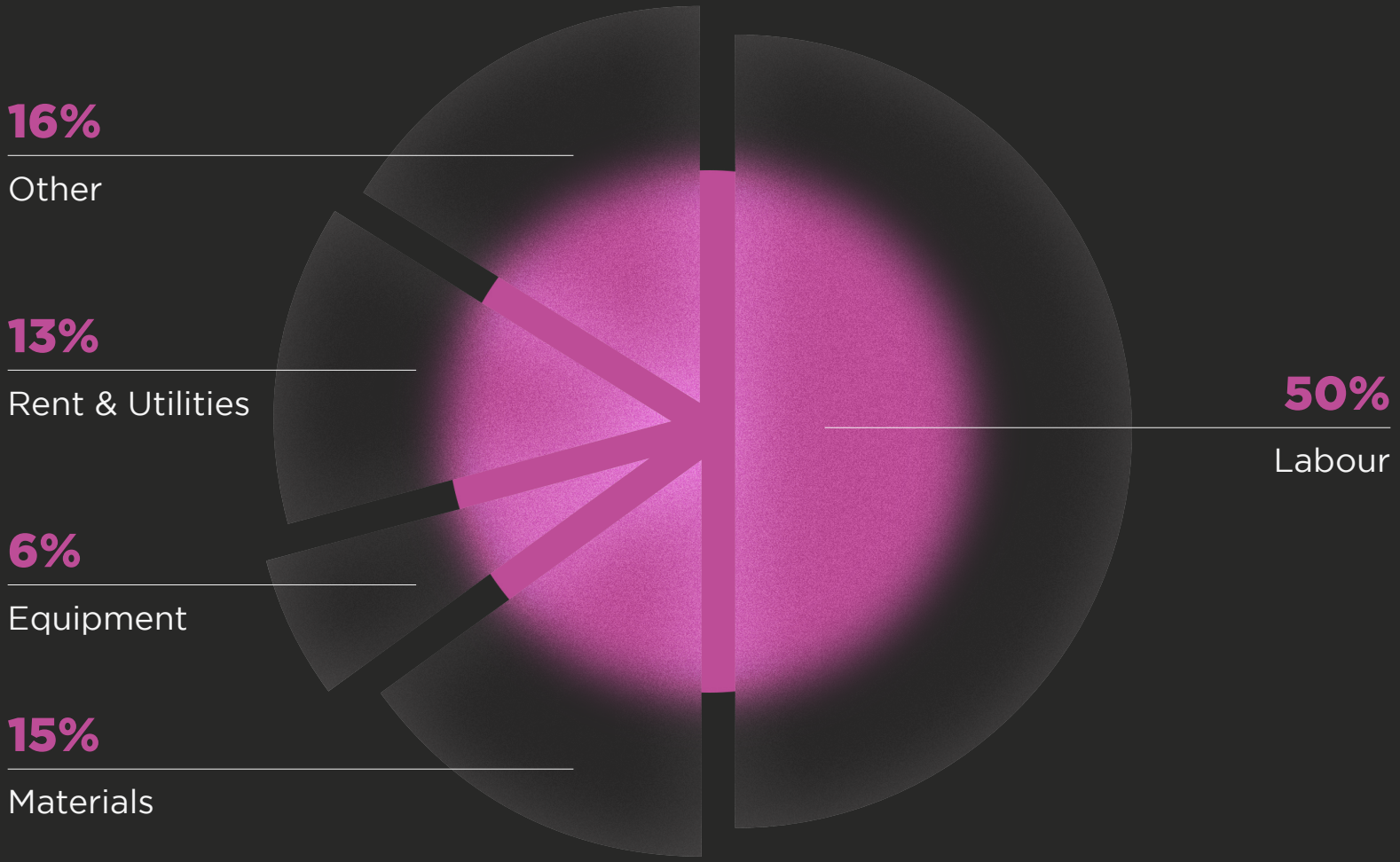
Initial estimates for Europe vary. Fédération de la Mode Circulaire suggests that the clothing repair market in Europe stands at EUR 2.7 billion in 2024, projected to reach EUR 3.7 billion by 2030.[14] France, where a national repair bonus programme was launched in late 2023, is estimated to account for approximately 40% of the European market. Alternatively, the European Environment Agency estimates the clothing repair sector's value in the European Union (EU) to be EUR 447 million, representing around 0.25% of total retail clothing sales.[15]

In Canada and the US, the fashion repair sector has been sized at USD 4.5 billion. However, this figure includes aesthetic tailoring and other elements that might overestimate the size of the repair sector as defined in this report.[16]

Resale and repair models are currently caught in an economic trap that penalises labour-intensive production and operational variability. Both depend on highly variable inflows of used goods, which differ significantly in both quality and quantity. This variability makes processes labour-intensive and difficult to standardise, resulting in lower labour productivity. In today's economic and regulatory landscape, these models struggle to match the rapid scalability of incumbent linear businesses, which benefit from decades of supply chain optimisation and the ability to produce and distribute goods at scale.

PER-UNIT COSTS BREAKDOWN FOR CLOTHING REPAIR

For repair models, labour is currently the main driver of high variable costs per unit. This chart provides a directional view of repair costs for European retail in-house models.[17] Informed by stakeholder interviews and desktop research, it is intended to show broad trends rather than precise figures. The data presented here reflects unit costs for repairs conducted outside of the mandatory EU two-year warranty period.



Circular business models do not reap scale benefits in the same way that linear businesses do, because labour-intensive processes like sorting and repair do not become significantly cheaper as volume increases. Sorting, cleaning, and repairing 100 items of used clothing takes 100 times the effort of sorting, cleaning, and repairing one. In the linear economy on the other hand, increasing production leads to lower costs per unit produced, which is essential to price competitiveness. While AI, automation, and optimised logistics can unlock cost savings over time, the challenge of low labour productivity must be addressed for resale and repair businesses to compete with the linear offering.

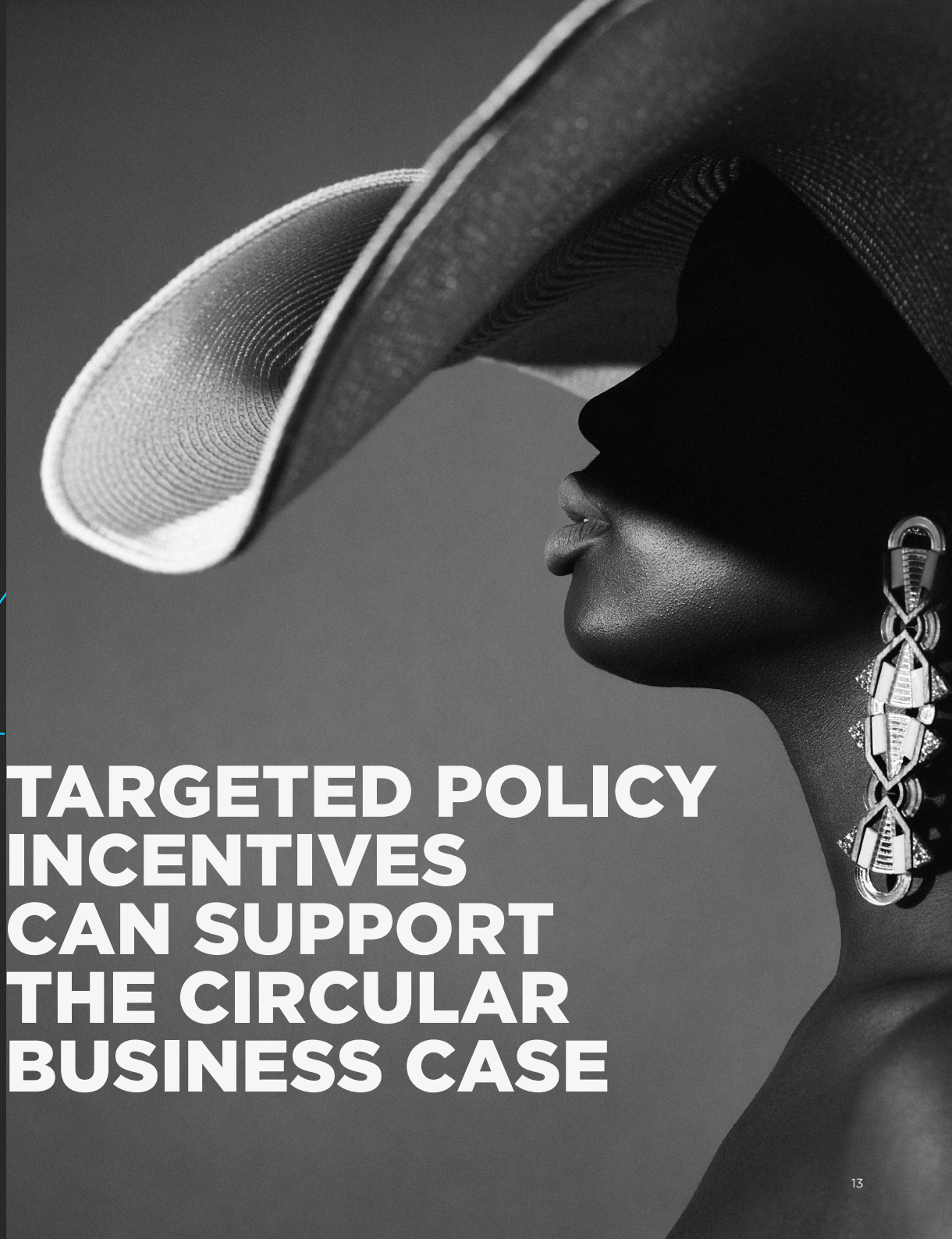
Given these challenges, only a limited number of resale and repair models currently compete with the unit economics of linear alternatives. Resale is currently only cost-competitive when collection and sorting comes at minimal or no cost. This means scale is often only where there are clothing donations and unpaid user labour in peer-to-peer models. Many resale models externalise sorting labour to informal actors and non-profit organisations operating on a cost coverage basis. In the mass-market, the cost of a basic repair, such as replacing a zip or restitching a seam, can exceed the price of a new garment. While repair is economically viable in the high-end sector, the high entry price limits these products to a niche market.

A significant challenge for resale and repair models is that they cannot absorb the vast volumes of clothing that are placed on the market and often quickly disposed of. The current economic model for collecting discarded textiles faces significant pressure. Textile collectors and sorters across regions currently report challenges to profitability.[18] Collectors also report a decline in the quality of the products they receive, which decreases both their suitability for resale and their selling price.[19] Physical durability is key to the success of circular business models. When products are designed for longevity and repairability, resale and repair businesses become more efficient.

Voluntary business action will not be enough to drive progress. The fashion industry faces systemic challenges that individual businesses cannot overcome alone. Scaling circular business models requires substantial joint investment in infrastructure and harmonised approaches to circular product design. Importantly, government policies need to incentivise the circular business case to ensure a fair competition between circular models and the traditional model of selling new products.

02

TARGETED POLICY INCENTIVES CAN SUPPORT THE CIRCULAR BUSINESS CASE



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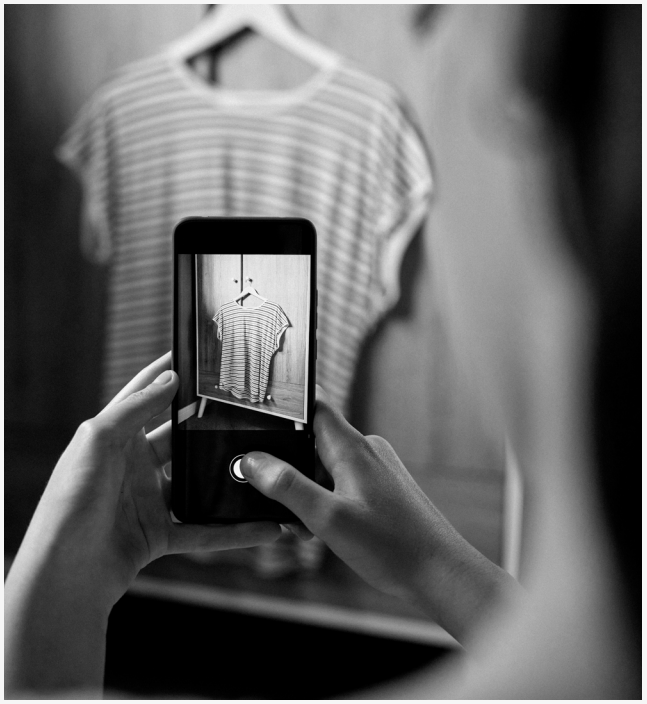
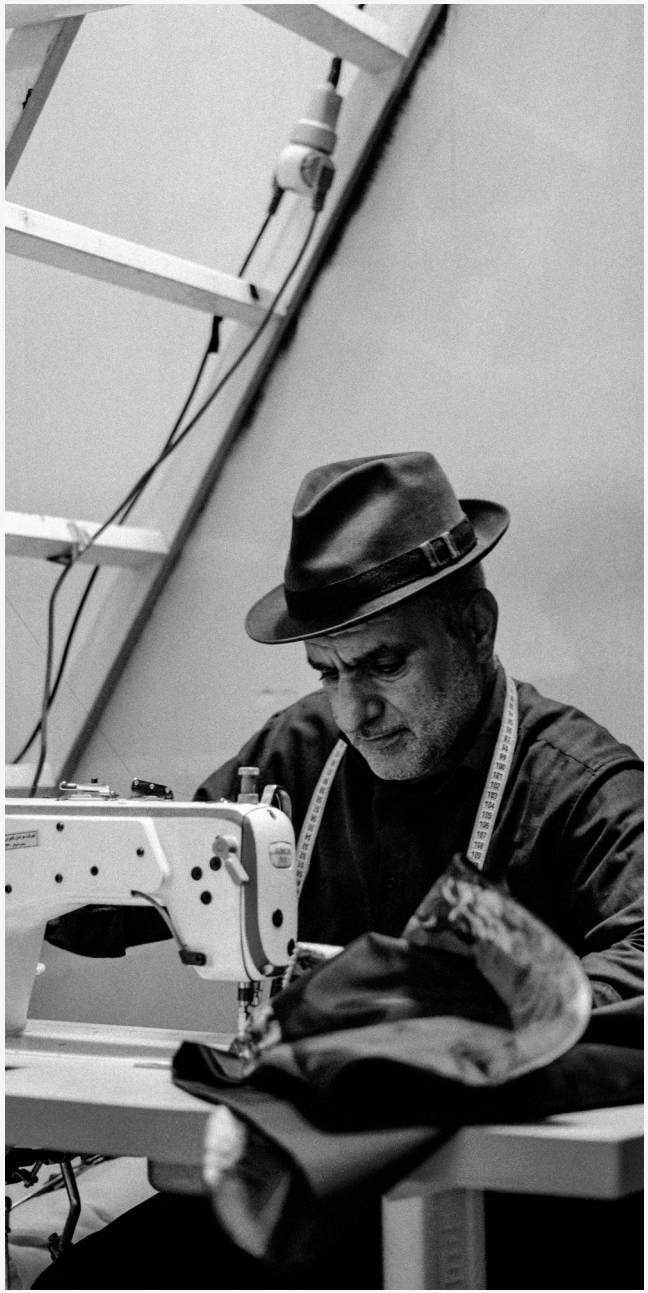


This report focuses on changing market incentives. Since resale and repair are labour-intensive and delivered largely within domestic markets, fiscal design directly shapes how competitive they can be. High labour taxes increase the cost of service-based activities such as resale and repair, whereas comparatively low resource taxes encourage companies to produce new products from scratch.[20] In a context where commodity markets are volatile and supply chains carry geopolitical risk, business models that reduce dependence on virgin material throughput can contribute to greater economic resilience.



The modelled policy mix can help reduce the challenges circular business models face, improving cost-competitiveness through three instruments:

1. **Reducing VAT or sales tax on resale and repair** improves margins per unit.
2. **Adjusting labour taxation** lowers the cost of inherently service-based, locally anchored activities.
3. **Ringfencing Extended Producer Responsibility (EPR) funds for reuse and repair** ensures that producers contribute to extending product lifetimes, not only managing waste.

Many of these interventions are already being implemented in different jurisdictions, demonstrating both feasibility and administrative practicality. Reduced VAT rates for repair activities are already permitted under the flexibility provided by the EU VAT framework and have been introduced in several Member States. Sector-specific sales tax exemptions are common in Canada and the US. France's EPR programme provides a precedent for ringfencing EPR funds to support reuse and repair activities. Across the EU, Member States often use targeted reductions or exemptions in social security contributions to incentivise job creation and support specific segments of the economy.[21]

Beyond the policies modelled in this report, wider policy reforms are required for resale and repair models to compete. Within the markets scoped (Canada, EU, US), resource costs are low relative to labour costs. Labour is taxed significantly, while taxes on pollution and resource extraction remain much lower. In member countries of the Organisation for Economic Co-operation and Development (OECD), for example, the average tax wedge[22] for employed workers stands at 34.9%.[23] In 2023, circular economy-related taxes represented a mere 0.9% of total tax revenue in OECD countries.[24] This creates incentives for fashion businesses to use new resources rather than investing in processes that can help resources circulate for longer, as well as shifting production to lower-wage labour markets. Overall, it means that capital is allocated more easily to resource-intensive business models than to labour-intensive ones. The resource-intensive model increasingly faces challenges with the availability of virgin raw materials, which in turn is driving up sourcing costs and further compressing already tight margins. As these pressures grow, the economic viability of linear economic models is likely to deteriorate, suggesting that without adaptation, business profitability will decline.

WHAT POLICY CHANGES WERE MODELLED?

This report has modelled the impacts of targeted policy interventions across three key markets in specific jurisdictions: Canada (British Columbia), the EU (France, Germany, and Poland), and the US (California and Michigan). It assesses the combined impact of these incentives if they are introduced together as a policy mix.

The EU scenarios incorporate a more ambitious policy mix than the US and Canadian scenarios. This was a deliberate modelling choice informed by a review of the existing policy landscape in both markets. The EU currently has more established fiscal mechanisms and EPR frameworks. In addition, the baseline tax rates (for VAT and SSC) are generally higher in European jurisdictions than in the US and Canada. Therefore, it is important to bear in mind that the modelling impacts are strongly influenced by the design of the policy as well as the baseline policy framework within which it is introduced.

AIM	POLICY MODELLED
Improve margins per unit	• [EU] VAT on resale is reduced to 6% [EU] VAT on repair services is reduced to 6% [US, Canada] sales tax on resale is eliminated *We excluded sales tax elimination on clothing repair in the US and Canada because these services are generally tax-exempt.* • [Canada, the EU, and the US] A portion of EPR revenues is ringfenced to financially support resale and repair activities. Ringfencing EPR funds to support such activities is currently in place in the French EPR for textiles system. For repair, this is also known as the 'repair bonus', where customers receive a discount and repair businesses can be reimbursed the bonus amount subsequently. *We have chosen to allocate EPR revenues to resale and repair in proportion to their respective (estimated) shares within the textiles market across each modelled jurisdiction.*
Reduce the cost of labour	• [EU] Employer Social Security Contributions (SSC) on gross wage reduced from 26.7% (France), 14.1% (Poland) and 16.8% (Germany) to 10% for jobs inherent to resale and repair activities. • [Canada, US] Labour-focused tax credits equivalent to approximately a 5% reduction in employer SSC on gross wages, from 7.5% to 2.1% in California and Michigan and 8.7% to 3.3% in British Columbia, for jobs inherent to resale and repair activities. *In the US and Canadian jurisdictions covered in this report, this is designed as the state/province providing a state tax credit for a portion of the federal SSC tax paid, which serves as one potential path for subnational governments to target resale and repair labour costs without necessitating coordination with the federal government.*
Bring linear externalities into the cost structure	• [Canada, the EU, and the US] Expanded cost coverage under EPR for textiles. The model assumes that EPR programmes for textiles aspire to ambitious targets on reuse and repair, going beyond the minimum requirements of the respective legal frameworks. In practice, this translates into a cost coverage of activities related to reuse and repair, alongside collection, sorting, recycling, and disposal. ◦ To reflect this expanded cost coverage, the model assumes a fee of EUR 0.25/USD 0.29/CAD 0.39 per item. ◦ A portion of these fees is ringfenced to financially support resale and repair activities. For each region, the allocation was made to align with the incidence of resale and repair in the market. ◦ For simplicity, the model does not take into account ecomodulation.[25] Nevertheless, the introduction of differentiated fees remains crucial for stimulating circular product design, as it influences key decisions related to product performance and material selection.

WHY THESE MARKETS?

This report is focused on Canada, the EU, and the US. These markets were chosen as they demonstrate high consumption and waste generation rates of clothing. Consumers in these markets typically buy significant volumes of garments per year: an estimated 8 kg clothing annually for every European citizen.[26] Americans purchase an average of 53 garments a year, four times as much as they did in the year 2000, and throw away 17 million US tons of clothing annually.[27]

In Canada, 1.3 million tonnes of apparel are made available for consumption annually, and of that, 1.1 million tonnes end up in landfill (also annually).[28] The findings in this report therefore reflect high consumption market dynamics and are not representative of lower-consumption markets.

To account for the diverse policy and economic contexts across these markets the modelling in this report has focused on the following jurisdictions:

BRITISH COLUMBIA (CANADA)

Industrial hub: British Columbia is an industrial hub for fashion and textiles in the country. Canada has one of the globe's highest rates of consumption per capita, and relies on virgin extraction or export for nearly 94% of its material needs.[29]

Regulatory maturity: British Columbia has an established history of EPR policy across nearly 20 product categories and is currently operating under its EPR 5-Year Action Plan that is poised for a priority reassessment next year. British Columbia also has robust regional diversion programmes in place for textiles.

CALIFORNIA (US)

Economic importance: California represents an economic force in the US and the world, with the fourth largest GDP in the world. It is growing faster than the world's top three economies (the US, China, and Germany). Given this size, California can demonstrate the potential impact of circular business models at scale.[30]

Primary testing ground: California has been a leader in circular economy policy and industry. It is the first US state with an EPR law for textiles in place (SB 707), with an initial needs assessment — which will evaluate repair, reuse, recycling, collection, sorting, and hauling — due in March 2027. In addition, California features a dense concentration of circular startups, established resale platforms, and specialised textile graders and sorters.

FRANCE (EU)

Market maturity: French consumer participation in resale is advanced, with 38% of citizens buying second-hand in 2023 (averaging 7.3 items per year).[31]

Textile EPR pioneer: France is home to the world's first textile EPR programme (since 2007), which was recently redesigned to include specific incentives for reuse and repair. The French programme includes a EUR 150 million budget to subsidise consumers' use of repair services for clothing.

VAT changes on the horizon: In November 2025, French MPs voted to reduce VAT on repair services from 20% to 5.5%, as part of the proposed 2026 budget. The measure will only apply if the 2026 budget is fully approved, including by the Senate.

GERMANY (EU)

Robust resale infrastructure: Germany features a robust resale infrastructure with a market value estimated at EUR 184 billion in 2025,[32] marked by established platforms as well as retail integration. Germany generally demonstrates high per-capita purchasing power, with strong public awareness of circular business models.

Regulatory transition: Similar to Poland and other EU member states, Germany is preparing to introduce a textile EPR programme following the revision of the EU Waste Framework Directive.

MICHIGAN (US)

Industrial engine: Michigan's manufacturing heritage, expertise, and infrastructure make it a key region for assessment. For example, the Industrial Sewing and Innovation Center provides advanced industrial sewing and material science capacity.

Economic driver: Through initiatives like NextCycle Michigan, the state has built an ecosystem of business incubation and innovation funding, poised to scale textile-specific recovery and job creation.

POLAND (EU)

Logistics hub: Poland is one of Europe's fastest-growing logistics and warehousing markets for fashion and textiles.[33] Its developed infrastructure and lower labour costs make it a critical node for resale product flows.

Regregulatory transition: Poland is currently preparing to introduce a textile EPR programme following the revision of the EU Waste Framework Directive.

Market development: Poland's younger and more price-sensitive population can accelerate demand for resale business models.

03

INSIGHTS

03

INSIGHTS

KEY ASSUMPTIONS

1. For the purpose of the modelling, we have assumed that the **gross margin for linear business models** (for clothing) is approximately 50% within the mass-market segment, and 70% within the high-end and luxury segments. This assumption serves as a practical benchmark rather than a precise industry-wide figure. In reality, gross margins across the clothing sector vary significantly due to several structural factors, including brand positioning, region, and product category.
2. When modelling market share changes, the model assumes a **pass-through rate of 75%** within the mass-market segment and **25%** within the high-end and luxury segment.[34] This reflects the structural economics with tighter margins and price-based competition for mass-market clothing. We recognise that pass-through rates vary depending on the brand positioning and competitive strategies pursued. The stated percentages provide a reasonable simplification for the purpose of the modelling.
3. The model assumes that **labour costs make up 35% of the total per-unit costs** within resale business models, and **50%** within repair business models. This is based on interviews with resale and repair businesses, carried out by Eunomia Research & Consulting Ltd.
4. We have accounted for geographical specificity by **adjusting model parameters to reflect the specific dynamics within the selected markets.** These parameters include trade data, average unit prices, estimated market size for repair and resale, displacement rate, as well as price elasticity of demand.
5. The model **does not account for time dynamics,** limiting the ability to contextualise how impacts may evolve or materialise over the short, medium, and long terms. In addition, the analysis assumes that resale supply and repair capacity can scale in line with increased demand. In practice, this may be constrained by factors such as product quality, reverse logistics infrastructure, and the availability of skilled repair labour, which could limit real-world applicability.
6. The model assumes that **lower prices will drive adoption of resale and repair services.** However, this may not translate into higher sales in markets where demand is relatively inelastic for clothing products. In such cases, if increased volumes in repair or resale services do not offset price reductions, the overall sector revenue could decline.

SUMMARY OF MODELLING RESULTS

This report has modelled the effects of a targeted policy mix on the gross profit margin as well as the market share for resale and repair business models for clothing. The modelling focused on three scenarios, across six jurisdictions in **Canada,** the **EU,** and the **US.**

The results consistently show that a targeted mix of policy incentives can enable resale and repair business models to achieve significant gross margin gains, making them more competitive compared with linear models:

- Specifically, the policies modelled can raise gross margins to around **55%** for resale and to around **41%** for repair — unlocking the commercial viability needed to scale.
- For resale, this represents a percentage change of around 23% for the EU countries modelled, and 12% for the US and Canada markets modelled. This difference in impact can be explained by a more ambitious policy mix modelled in EU jurisdictions, where baseline taxation rates (for VAT and SSC) are generally higher.
- The gross margin gains are stronger in the mass-market segment than in the high-end and luxury segments. This can be explained by the financial incentives provided through EPR, which are proportionally more significant relative to product prices, thereby having a larger effect in the segment with lower baseline prices.

Businesses offering resale and repair can respond to these changes by passing the cost benefit on to consumers through lower prices (potentially growing market share) or retaining it as improved margins. This report uses scenario-based assumptions to analyse how outcomes may vary across different market segments, regions, and pass-through rates. In every scenario, an assumption was made as to how much of the cost benefit would be reflected in lower prices (75% for the mass-market segment, 25% for the high-end and luxury segment).

The combined policy package delivers greater impact than individual measures, as each instrument addresses a distinct structural barrier faced by circular business models. Reduced VAT (in the EU) and eliminated sales tax (in the US and Canada) have the largest direct impact on cost-competitiveness by improving margins for resale and repair business models. Labour tax adjustments address a separate structural distortion that penalises labour-intensive, local activities. And EPR policies with ringfenced funding for resale and repair enable the development of shared operational infrastructure such as collection, sorting, and repair systems, that individual actors lack the incentive to establish independently.

Taken together, these instruments are complementary rather than overlapping: VAT reductions activate the market by improving price competitiveness and demand, EPR supports the development of the backbone infrastructure required for scale, and labour tax adjustments ensure that the workforce underpinning these activities is not structurally disadvantaged.

The policy mix modelled aims to target critical cost drivers and operational constraints for resale and repair. But a broader policy mix would be necessary to address the full range of cost drivers and market failures across different segments of the textiles value chain. These factors include consumer behaviour and awareness, access to finance for small operators, product design requirements, and quality standards for repaired goods.

MODELLING RESULTS — SCENARIO BY SCENARIO

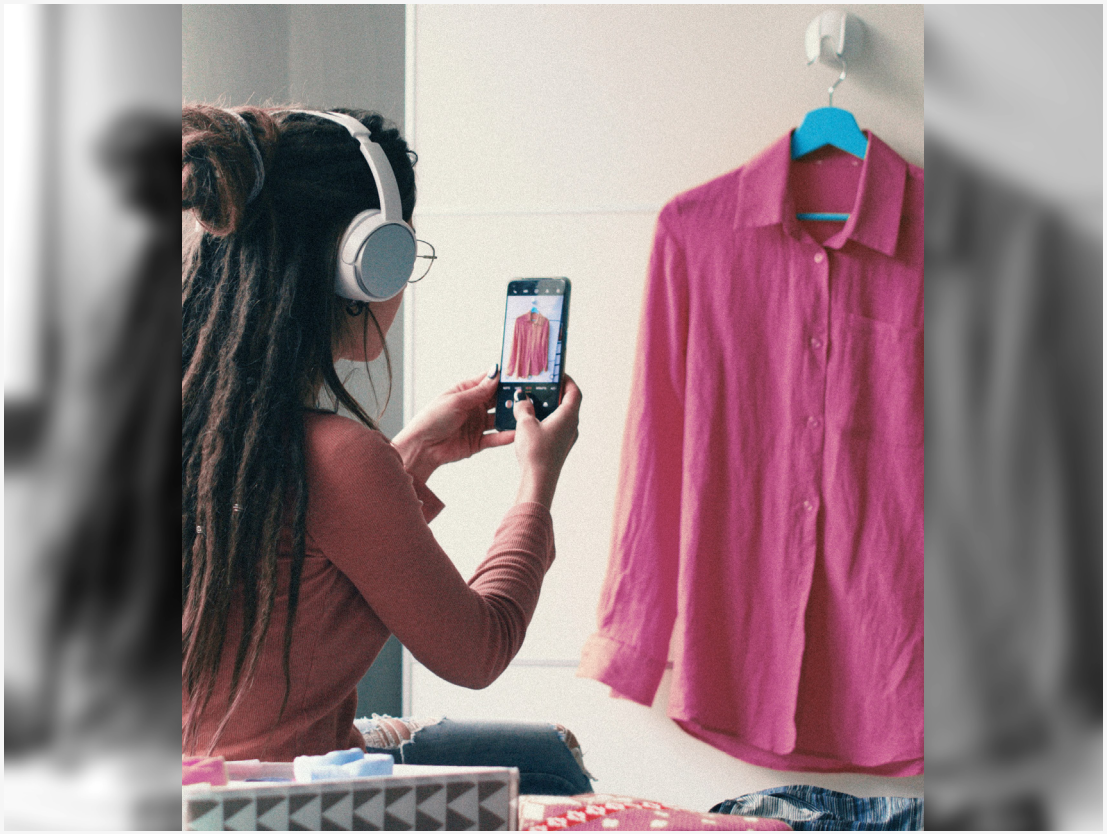
The content table outlines the **set of three scenarios** analysed in this report, categorised by business model, product focus, and market segment.

SCENARIO	BUSINESS MODEL	PRODUCT SCOPE	MARKET SEGMENT	GEOGRAPHICAL SCOPE
Scenario 1	Resale	Clothing	Mass-market	Canada, the EU, and the US
Scenario 2	Repair	Clothing	Mass-market	Germany (EU) and Poland (EU)
Scenario 3	Resale	Clothing	High-end/luxury	British Columbia (Canada) and Germany (EU)

SCENARIO 1	RESALE
PRODUCT SCOPE	CLOTHING
MARKET SEGMENT	MASS-MARKET
GEOGRAPHICAL SCOPE	CANADA, THE EU, AND THE US (ALL REGIONS)

POLICY IMPLICATION

- The policy mix delivers the most significant results for the mass-market resale segment. This is where price sensitivity is highest and volumes are largest, with the structural cost disadvantages faced by resale operators addressed by the instruments modelled.
- The policy mix directly improves the economics of resale, across all regions modelled. It can result in higher gross margins, lower consumer prices, and increased market share — which are all expected to stimulate associated logistics, supplier activities and job creation across the resale value chain.
- Reduced VAT (in the EU) and eliminated sales tax (in the US and Canada) have the largest direct impact on cost-competitiveness for resale.
- When passing on the cost benefits delivered through the policy mix and hence lowering prices, resale models can capture a greater portion of the market and displace linear sales, all while offering more choice and extending the useful life of products.
- Given existing estimates that the resale market is already growing at a strong compound annual rate,[35] the policy incentives would further accelerate this growth trajectory.



TECHNICAL SUMMARY

The combined effect of the three policy incentives increases resale gross margins up to approximately 55%. This represents a percentage change of 12% in Canada and the US and around 23% in the EU. The results differ between these markets because the policy changes modelled are more aggressive in the European countries, due to a higher taxation baseline: for example, France's VAT rate is currently 20% while California applies an 8.8% sales tax.

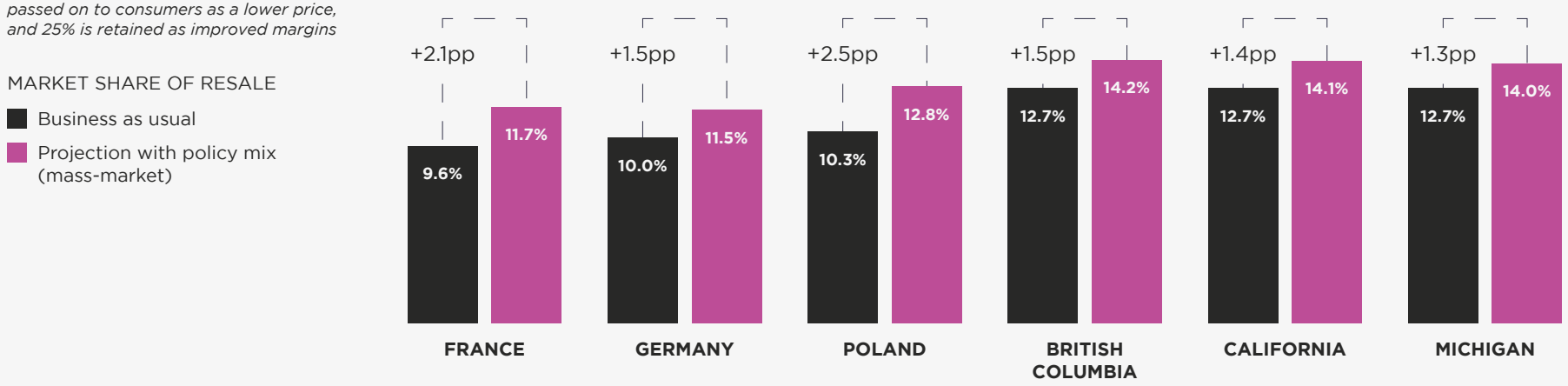
If resale businesses pass these margin gains on to consumers instead of retaining them, the resale segment could have expanded to roughly 12% of the EU clothing market and 14% in the US and Canada in 2023 (with slight differences depending on the market and national context), had the policies been in place. This should be understood as an impact snapshot rather than a forward-looking projection.

Across all markets, the cumulative impact of coordinated policy incentives exceeds the effect of any single measure. Reduced VAT (in the EU) and eliminated sales tax (in the US and Canada) have the largest direct impact on cost-competitiveness by improving margins for the resale business model. The impact of a tax break on labour is smaller compared with the other policies in scope, as it only affects a portion of the overall cost structure for resale businesses. In the model, labour accounts for 35% of per-unit costs, meaning that any reduction in labour taxation translates into a partial cost saving rather than a full reduction in total costs. By contrast, a VAT reduction applies to the final transaction price, directly improving overall price competitiveness and margins across the entire value of the product. As a result, VAT reductions have a broader and more immediate effect on both business economics and consumer demand, whereas labour tax adjustments deliver more targeted, incremental benefits.

In the current context of steadily rising employment costs across the markets covered in this report, even modest reductions in labour taxation can provide meaningful relief — particularly for labour-intensive, third-party circular business models such as authentication, cleaning, and sorting providers. For these operators, labour tax reductions can help stabilise margins, support job retention, and improve the viability of scaling operations, even if the overall system-wide impact remains more limited than that of VAT changes.

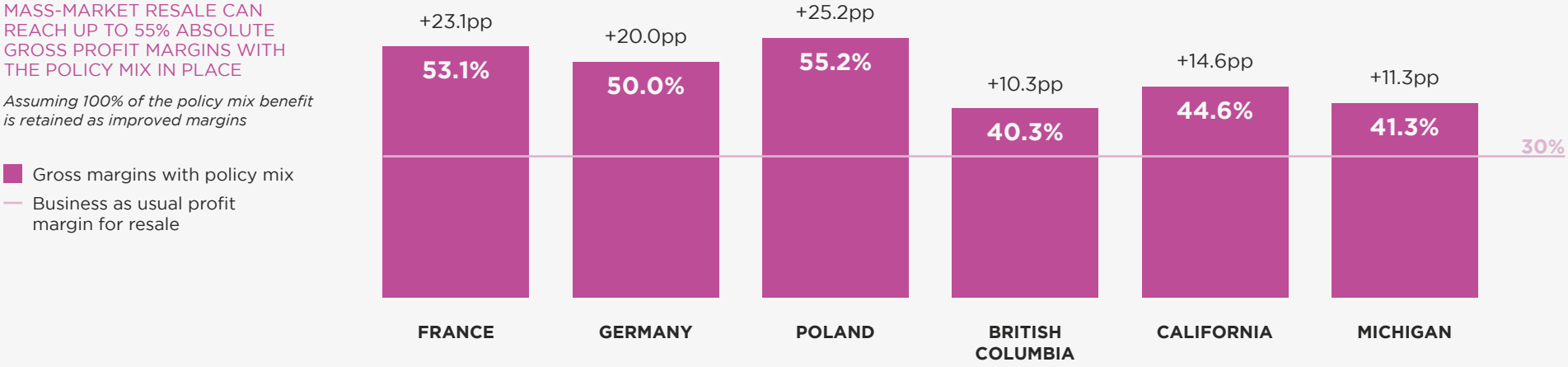
THE POLICY MIX LEADS TO GREATER MARKET SHARE FOR CLOTHING RESALE IN THE MASS-MARKET SEGMENT

Assuming 75% of the policy mix benefit is passed on to consumers as a lower price, and 25% is retained as improved margins



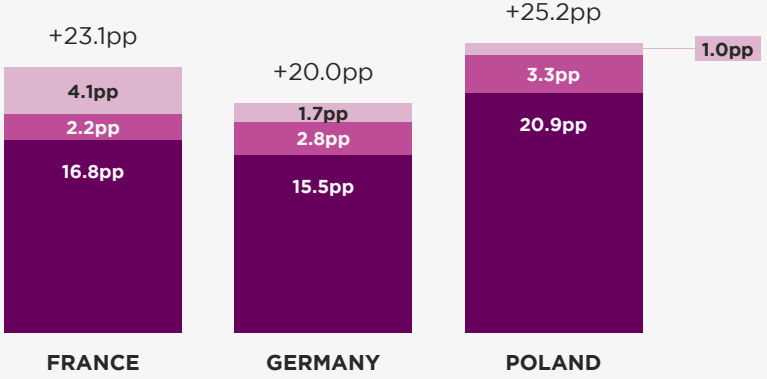
MASS-MARKET RESALE CAN REACH UP TO 55% ABSOLUTE GROSS PROFIT MARGINS WITH THE POLICY MIX IN PLACE

Assuming 100% of the policy mix benefit is retained as improved margins



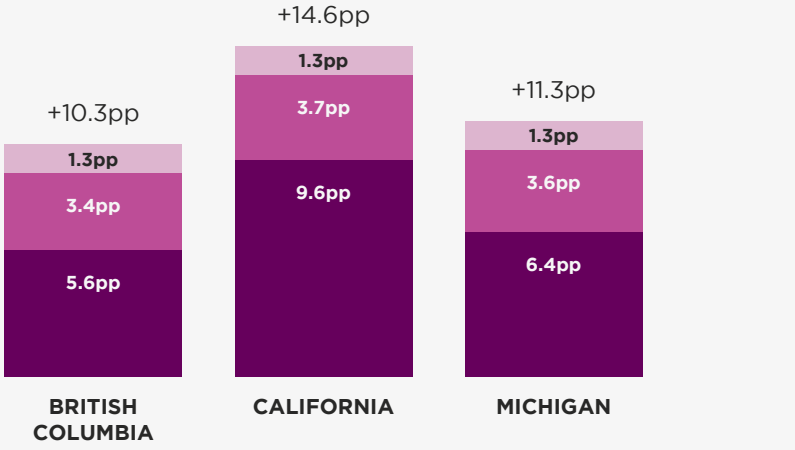
EU: VAT REDUCTIONS HAVE THE BIGGEST IMPACT ON THE MARGIN GAIN FOR RESALE

Assuming 100% of the policy mix benefit is retained as improved margins



US AND CANADA: SALES TAX ELIMINATION HAS THE BIGGEST IMPACT ON THE MARGIN GAIN FOR RESALE

Assuming 100% of the policy mix benefit is retained as improved margins



WHAT DO THE POLICIES MEAN AT THE PRODUCT LEVEL?

MASS-MARKET RESALE, GERMANY

NEW (BASELINE)

13.50EUR
(INC. VAT)

Cost: 5.70 EUR
Gross margin: 50.0%

RESALE (BASELINE)

7.45EUR
(INC. VAT)

Cost: 4.40 EUR
Gross margin: 30.0%

NEW (WITH POLICY MIX)

13.60EUR
(INC. VAT)

Cost: 5.80 EUR (EPR effect on new)
Margin: 49.6%

RESALE (WITH POLICY MIX)

6.60EUR
(INC. REDUCED VAT)

Cost: 3.85 EUR
Margin: 36.3%*

CUSTOMERS WOULD BENEFIT FROM A REDUCTION IN RESALE PRICES OF

11%

BUSINESS WOULD SEE THEIR RESALE GROSS MARGINS PER ITEM GROW BY

6pp

**Assuming 75% of the policy mix benefit is passed on to consumers as a lower price, and 25% is retained as improved margins*

MASS-MARKET RESALE, CALIFORNIA

NEW (BASELINE)

13.30USD
(INC. SALES TAX)

Cost: 6.10 USD
Gross margin: 50.0%

RESALE (BASELINE)

7.30USD
(INC. SALES TAX)

Cost: 4.70 USD
Gross margin: 30.0%

NEW (WITH POLICY MIX)

13.45USD
(INC. SALES TAX)

Cost: 6.25 USD (EPR effect on new)
Margin: 49.4%

RESALE (WITH POLICY MIX)

6.70USD
(INC. SALES TAX ELIMINATED)

Cost: 4.20 USD
Margin: 35.3%*

CUSTOMERS WOULD BENEFIT FROM A REDUCTION IN RESALE PRICES OF

8%

BUSINESS WOULD SEE THEIR RESALE GROSS MARGINS PER ITEM GROW BY

5pp

**Assuming 75% of the policy mix benefit is passed on to consumers as a lower price, and 25% is retained as improved margins*

SCENARIO 2	REPAIR
PRODUCT SCOPE	CLOTHING
MARKET SEGMENT	MASS-MARKET
GEOGRAPHICAL SCOPE	GERMANY (EU) AND POLAND (EU)*

**These EU member states were chosen as they represent large industrial repair and manufacturing bases. Allowing for comparison, Poland represents a low labour costs region, while labour costs in Germany are more expensive. We excluded Canada and the US from this scenario as repair services are generally sales tax-exempt in these markets.*

POLICY IMPLICATION

- Today, the economics of mass-market clothing repair do not stack up: the cost of labour-intensive repair services typically exceeds what consumers are willing to pay relative to the price of new garments. As a result, repair often remains a niche or subsidised offering for higher price points or emotionally connected items, rather than a scalable, profit-generating model. Often, repair services are offered by brands as a loss leader to enhance customer experience, strengthen loyalty, and reinforce brand values rather than generating significant direct profit.
- With targeted policy support, repair economics could shift significantly. A targeted policy mix can begin to shift the equation for retailers willing to reinvest the gains into lower consumer prices. In such cases, repair can function less as a standalone profit centre and more as a strategic lever to build customer loyalty and extend product lifecycles, potentially justifying the business model despite continued margin pressure.
- While the mix of policies explored in this report would help narrow the gap, the impact would only be incremental. Without further intervention, they are unlikely to make repairs broadly cost-competitive with new products in the mass-market. Broader research indicates that customer adoption is determined by price, but also by service accessibility, repair time, travel time, and service guarantees.[36] Complementary policy measures would be needed to address wider adoption barriers.

TECHNICAL SUMMARY

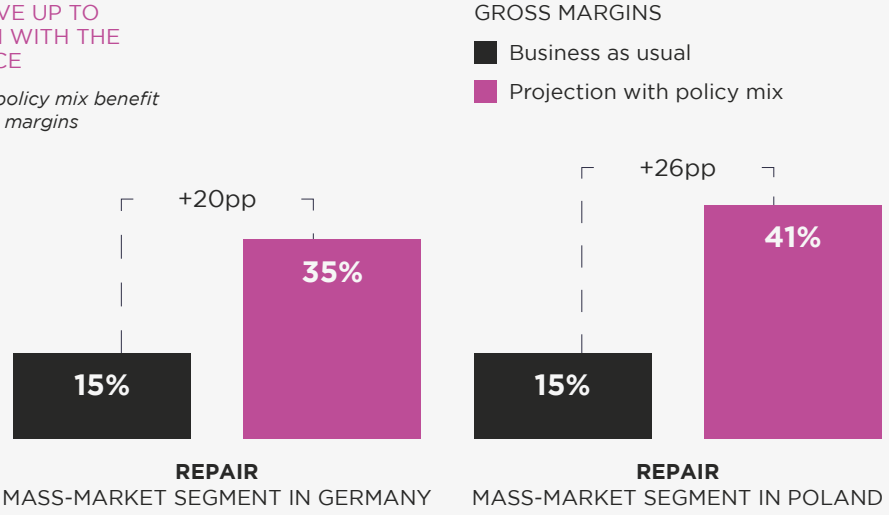
With the policies implemented, repair can achieve up to a 41% gross margin in Poland (a net increase of 19.9%), and 35% (a net increase of 25.7%) in Germany. When compared with the assumed gross profit margins for the linear business model (estimated at 50% in this report), it is clear that while the policies have an impact, they do not close the profitability gap between repair services and linear sales.

Assuming a 75% pass-through and hence by lowering price barriers, the policy incentives can stimulate repair market growth to capture 1.3% of the market in Poland, and 1.7% in Germany. Starting from a 0.58% baseline, this means the policy mix is expected to more than double repair market share in Poland and nearly triple it in Germany. However, with market share remaining below 5%, the modelling suggests that price is only one lever.

Baseline conditions shape the policy outcomes. Poland's lower labour cost base means the policy mix delivers higher gross margin gains. In addition, the modelled VAT rate of 6% represents a bigger change in Poland (where the current VAT rate is 23%) than in Germany (with a current VAT rate of 19%).

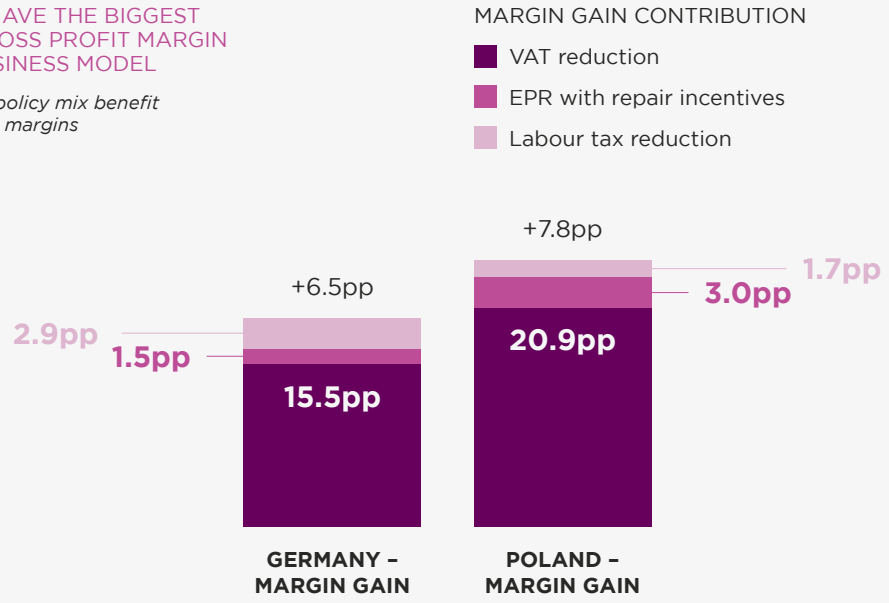
REPAIR CAN ACHIEVE UP TO 41% GROSS MARGIN WITH THE POLICY MIX IN PLACE

Assuming 100% of the policy mix benefit is retained as improved margins



VAT REDUCTIONS HAVE THE BIGGEST IMPACT ON THE GROSS PROFIT MARGIN OF THE REPAIR BUSINESS MODEL

Assuming 100% of the policy mix benefit is retained as improved margins



SCENARIO 3	RESALE
PRODUCT SCOPE	CLOTHING
MARKET SEGMENT	HIGH-END/LUXURY
GEOGRAPHICAL SCOPE	BRITISH COLUMBIA (CANADA) AND GERMANY (EU)*

**These markets were chosen as they represented a region dominated by online resale platforms for the high-end and luxury sector (Germany), compared with one that is more hybrid, featuring in-person resale stores as well as online resale activity (British Columbia). While Germany benefits more from developed logistics networks, British Columbia is more geographically isolated with higher shipping costs.*

POLICY IMPLICATION

- The policy mix is expected to reinforce existing circular economy trends already gaining traction in the high-end and luxury segment, where resale is projected to grow two to three times faster than the first-hand market through 2027.[37] For this segment, the policy mix serves mainly to enhance operator profitability rather than driving market expansion.
- As seen in both the mass-market segment and the high-end and luxury market segment, the policy's impact on gross profit margin increases are contingent on local tax structures. In high-VAT environments, such as Germany, tax-based incentives provide a more aggressive boost, making them critical to scaling high-end circular economy operations.
- Owing to lower price sensitivity and a lower pass-through rate of 25%, market share increases are modest at under 1% in both Germany and British Columbia, suggesting policy value lies in bolstering business viability and resilience rather than lowering consumer entry barriers.

TECHNICAL SUMMARY

High-end/luxury resale maintains strong margins with the policy mix in place, reaching up to 47.5% in Germany and 37.4% in British Columbia.

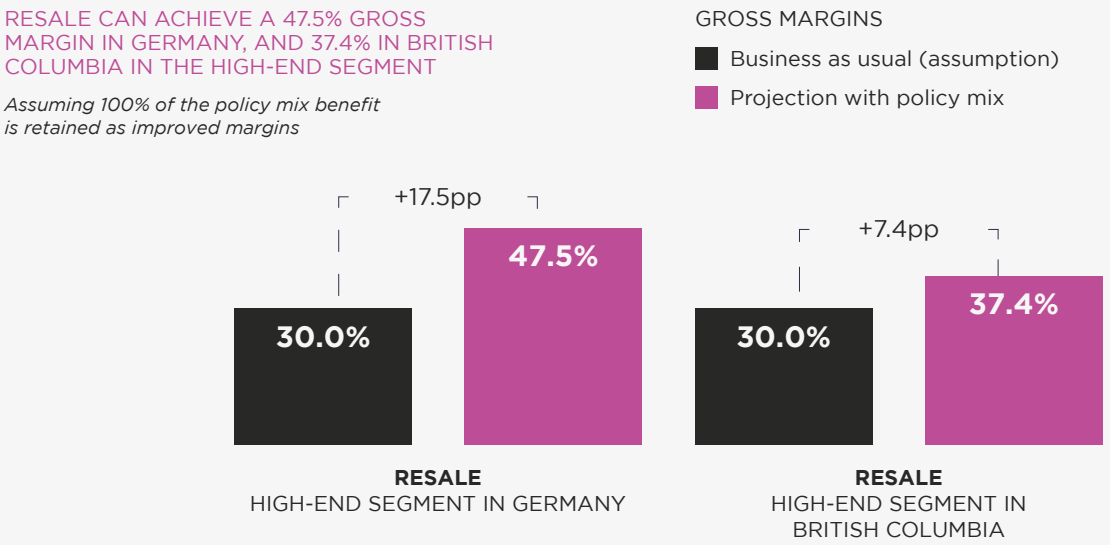
The impact on market share is modest, with an assumed market share of 10.3% in Germany (an increase of 0.3%) and 12.9% in British Columbia (an increase of 0.2%). This is the direct result of the lower 25% pass-through rate assumed in the modelling, and the fact that luxury/high-end consumers are generally less sensitive to the price shifts.

Reduced VAT (in Germany) and sales tax (in Canada) rates have the largest direct impact. The impact of a tax break on labour is smaller as it only affects a portion of the overall cost structure for resale businesses. In the model, labour accounts for 35% of per-unit costs, meaning that any reduction in labour taxation translates into a partial cost saving rather than a full reduction in total costs. By contrast, a VAT reduction applies to the final transaction price, having a broader and more immediate effect on profit margins.

The difference in outcomes between Germany (up to 47.5%) and British Columbia (up to 37.4%) reflects both the higher VAT baseline in Germany and the additional logistical costs associated with British Columbia's relative geographic isolation. Both results represent meaningful improvements in operator viability, but both also remain below the assumed 70% gross margin for primary market luxury retail, indicating that the policy mix narrows the profitability gap without fully closing it.

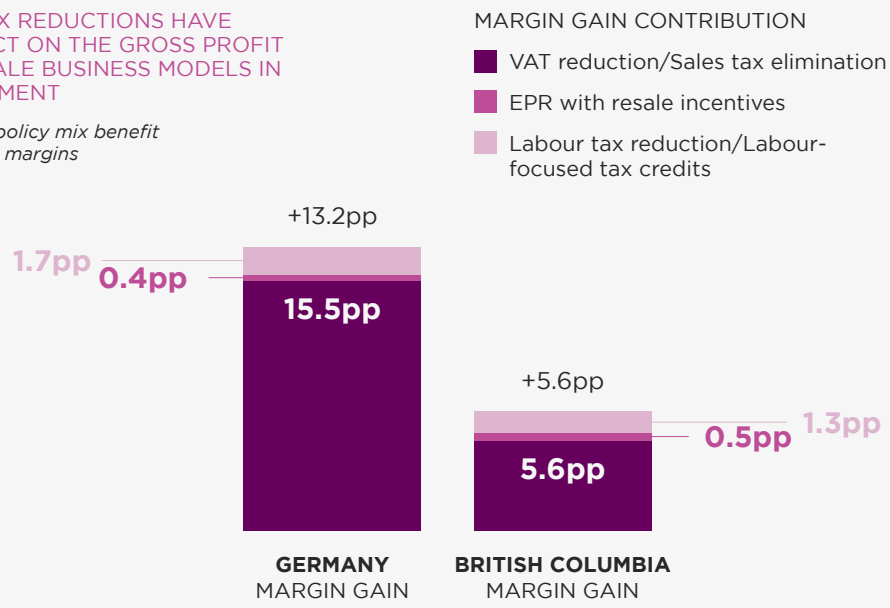
RESALE CAN ACHIEVE A 47.5% GROSS MARGIN IN GERMANY, AND 37.4% IN BRITISH COLUMBIA IN THE HIGH-END SEGMENT

Assuming 100% of the policy mix benefit is retained as improved margins



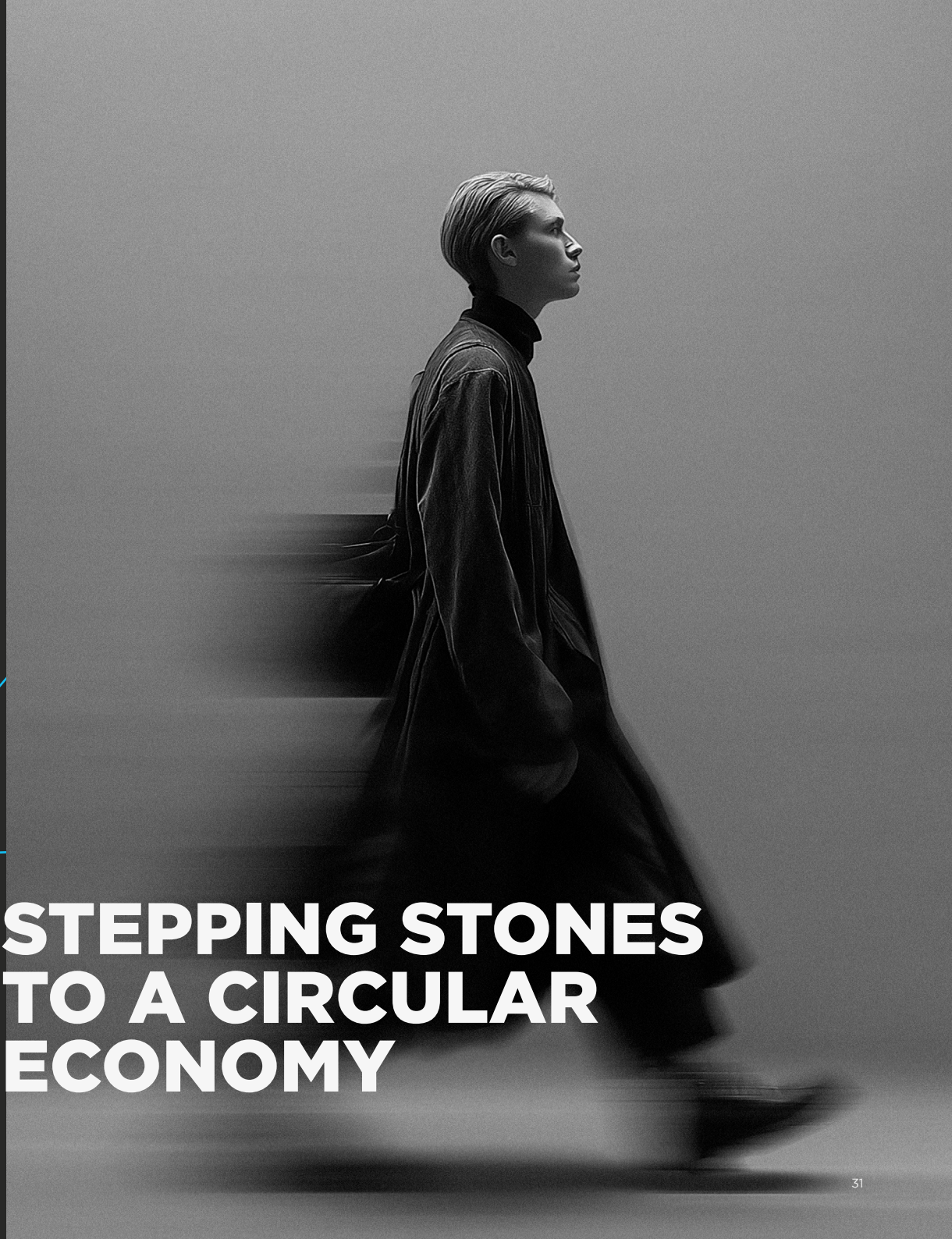
VAT AND SALES TAX REDUCTIONS HAVE THE BIGGEST IMPACT ON THE GROSS PROFIT MARGINS FOR RESALE BUSINESS MODELS IN THE HIGH-END SEGMENT

Assuming 100% of the policy mix benefit is retained as improved margins



04

STEPPING STONES TO A CIRCULAR ECONOMY



04

STEPPING STONES TO A CIRCULAR ECONOMY

The policy incentives modelled for this report demonstrate that targeted adjustments to existing fiscal and regulatory instruments (sales tax/VAT, labour taxation, and EPR) can materially rebalance incentives in favour of resale and repair. The changes needed sit at the intersection of fiscal design, competitiveness, and industrial strategy. Acting on these findings will require environment and climate policymakers to work alongside finance and economy counterparts, using instruments already within government control, many of which are already in use in different jurisdictions.

The policy incentives modelled for this report represent an initial step. While they affect the bottom line for circular business models, they are insufficient to resolve the underlying economic challenges in isolation. Broader economic policy reforms are required to create the economic conditions needed to scale circular solutions. This includes, for example, reforming subsidies, aligning taxation with circular economy principles and adapting accounting rules.[38]

Over time, circular product design, capital investments in technology and infrastructure, as well as economies of scale can amplify the gains demonstrated in this report for resale and repair business models. Together, these factors can create a reinforcing dynamic:

- **Circular product design** enhances resale value and improves repair efficiency.
- **Infrastructure investment** will lead to optimised reverse logistics and enhanced customer adoption.
- **Scaling** leads to lower average per unit cost, enhancing competitiveness for resale and repair.

Circular business models can improve resource productivity, reduce reliance on volatile virgin material inputs, and generate economic value that stays within national and regional economies. However, voluntary industry action has reached its limit; we cannot build circular business models on a linear economic foundation. To fix the broken economics of resale and repair, governments must move beyond initial incentives and provide the decisive leadership needed to establish a fair market environment where circular business models can achieve scale.

ACKNOWLEDGEMENTS

CORE PROJECT TEAM

Valérie Boiten
Senior Policy Officer, Lead Author

Miranda Beckett
Project Manager, Lead Author

Kirsty Emery-Laws
Programme Manager, Lead Author

Xain Storey
Senior Content Editor

Lou Waldegrave
Senior Content Editor

WIDER TEAM

Mark Buckley
Business Models Lead – Fashion & Textiles

Danielle Holly
Executive Lead North America

Jules Lennon
Strategy Lead – Fashion & Textiles

Sarah O'Carroll
Institutions Lead

Oriol Izquierdo
Project Manager – Policy

Haley Lieberman
Director Network & Industry North America

Matteo Magnani
former Policy Officer Fashion & Textiles

Andres Oliva-Lozano
Senior Research Analyst – Fashion & Textiles

Helena Pribyl
Project Manager – Fashion & Textiles

Neil Amos
Digital Programme Manager

Rosie Bakewell
Network Manager Fashion & Textiles

Dan Baldwin
Senior Designer – Communications

Sarah Butler
Content Creator

Lucy Dayman
Senior Strategic Communications Executive

Rose Ely
Senior Strategic Communications Manager

Darcy Hedley
Media Assistant

Rachel Jenkins
Senior Partnership Manager

Mimi Quaife
Events Manager

Louis Smith
Designer – Communications

Hannah Sothcott
Digital Marketing Executive

Seth Squadron
Director of Communications North America

Clélia Thiebault
Senior Digital Marketing Manager

Kim Webster
Media Relations Manager

FURTHER CONTRIBUTORS

Details of external contributors will be provided in a forthcoming update to this report.

ENDNOTES

1 While peer-to-peer resale models do not demonstrate the same business models as third-party and brand-led resale models, they represent a significant share of the resale market, and were therefore included in the scope. Some peer-to-peer models do require paid labour to be performed in sorting and authentication, bringing them more closely in line with brand-led resale.

2 Some participants have chosen a meaningful subset of their business (e.g. a department or region) to participate. Broader revenue refers to this participating part of the business.

3 S. Manoochehri, et al., *An overview of Europe's repair sector, European Topic Centre on Circular economy and resource use* (2022).

4 Ellen MacArthur Foundation, *Circular business models: redefining growth for a thriving fashion industry* (2021).

5 Ellen MacArthur Foundation, *Making the case that circular business models deliver financial benefits to my business* (2025).
Ellen MacArthur Foundation, *Deep Dive: Top three benefit areas for circular business models* (2025).

6 Gross profit margin: the percentage of revenue that the resale or repair business keeps after paying for the direct costs of providing the service or product.

7 Market share: the proportion of total sales in the fashion market that is captured by resale or repair, within each selected geography.

8 These outcomes can be measured using Science-Based Targets initiative (SBTi) indicators.
Ellen MacArthur Foundation: *Making the case that circular business models deliver climate mitigation* (2025).

9 European Environment Agency, *Scaling of Circular Business Models in Europe's Circular Economy* (2026).

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11 ThredUp, *Resale Report* (2026).

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15 S. Manoochehri, et al., *An overview of Europe's repair sector, European Topic Centre on Circular economy and resource use* (2022).

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17 The research is based on European repair models. While the San Francisco Textile Repair Pilot (2023) recorded 71% labour costs for rehabilitating damaged thrift donations, we believe 50% can apply across the US and Canada context, accounting for the more predictable repair needs and operational scale of a primary retail environment. California Product Stewardship Council, *San Francisco Textile Repair Pilot* (2023).

18 Ellen MacArthur Foundation, *Pushing the boundaries of EPR policy for textiles* (2024).

19 Ibid.

20 European Environment Agency, *Scaling of Circular Business Models in Europe's Circular Economy* (2026).

21 Examples include the SSC exemptions in effect in Spain within the R&D sector, or SSC reductions in place for employees aged 58 or older in Flanders.

22 The difference between labour costs to the employer and net take-home pay, including income tax and social security contributions.

23 OECD, Taxing Wages (2025).

24 OECD, *Environment at a Glance Indicators* (2025). The OECD defines circular economy-related taxes as revenues from market-based instruments, including taxes and tradable permits, that aim to improve resource efficiency and reduce waste and pollution associated with material production and consumption.

25 Ecomodulation refers to differentiating fees based on circular economy or other environmental criteria.

26 European Environment Agency, *Circularity of the EU textiles value chain in numbers* (2025).

27 United States Environmental Protection Agency, *Textiles: Material-specific data* (2026).

28 Government of Canada - Environment and Climate Change Canada, *Opportunities for circularity in apparel textiles in Canada* (2024).

29 The Council of Canadian Academies, *Turning Point* (2021).

30 Office of the Governor of California, *California is now the 4th largest economy in the world* (2025).

31 Refashion, *Baromètre de la consommation de vêtements et chaussures en France en 2024* (2025).

32 PwC, *Secondhand-Mode im Aufwind* (2025).

33 Fashion United, *Fashion Statistics Poland* (2026).

34 **Pass-through rate** refers to how much of the cost saving is shared with the customer through price.

35 Examples include: ThredUp, *Resale Report* (2026). Vestiaire Collective & BCG, *Resale's Next Chapter: How Fashion and Luxury Brands Can Win in the Secondhand Market* (2025). Ellen MacArthur Foundation, *Circular business models: redefining growth for a thriving fashion industry* (2021).

36 While this insight is based on a study on smartphones and washing machines, authors stated that the same results could be transferable to other product types. Güsser-Fachbach et al., *The impact of convenience attributes on the willingness-to-pay for repair services* (2023).

37 McKinsey, *The State of Fashion* (2026).

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www.ellenmacarthurfoundation.org

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Company No.: 6897785