

What the Supply Chain Scandals Mean for Luxury Brands and Made in Italy

Supply chain scandals challenge Made in Italy fashion as luxury brands face scrutiny over labor practices, sparking calls for stricter transparency.



Unpacking what's behind the allegations of luxury brands' ties to sweatshop schemes in Italy. MILAN — Over the past two years, shock waves have been running through the luxury industry as supply chain scandals uncovered in Italy have prompted strong reactions from stakeholders

Multiple probes by a Milan Court into luxury brands' ties to subcontractors allegedly engaged in workers' exploitation, abuse and sweatshop schemes have placed the sector's supply chain under scrutiny, all amid mounting pressure on fashion as a result of the global downturn in luxury spending.

You May Also Like

The latest case linked Loro Piana to sweatshop subcontractors that the brand allegedly failed to properly audit and follows earlier similar incidents at Dior Giorgio Armani Valentino and Alviero Martini. All brands have been put under judicial administration, with the probes into Dior and Armani fully resolved and the judicial oversight lifted.

“According to the prosecutors, brands would have relied on weak controls, turning a blind eye to subcontracting practices. More specifically, there would have been a huge disparity between the brands' ethical and social commitments, also reflected in the supplier contractual framework, and the supplier audit process, which would not have been adequate to identify relevant risks,” said Arnaldo Bernardi, a Milan-based partner at law firm Dentons' global Litigation and Dispute Resolution practice and part of the Italian White-Collar Crime and Compliance team, as well as environmental, social and governance ambassador for Dentons in Italy.

Subcontracting is a common practice, implemented to gain flexibility of production and better deal with business shifts. Although no current regulatory framework in Italy holds fashion companies





legally accountable for forced labor or health and safety violations along their nonproprietary value chain, brands are expected to implement robust, risk-based assessment and compliance protocols to detect and exclude such risks.

"It's worth remembering that creating a product, say, a luxury handbag, quite legitimately requires multiple layers of subcontracting, which per se are not inherently problematic," Bernardi said.

In most cases Milan prosecutors indicated that the companies failed to properly audit their supply chain partners, which kept them from uncovering unofficial subcontracting arrangements. In some circumstances the first- and second-tier subcontractors involved third parties in breach of contract with the brands, paperwork reviewed by WWD revealed.

"Once you outsource production, you essentially gain flexibility but reduce control and insight into supply chain relationships. Having extremely strong contractual frameworks is one key step in the management of supplier relationships from a legal and compliance standpoint. However, it is important to verify that suppliers abide by their contractual commitments," Bernardi explained.

The Industry Responds

All brands subject to judicial administration have fully complied with court-mediated auditing procedures to improve oversight of their supply chains.

Loro Piana firmly condemned illegal practices and reaffirmed its commitment to human rights and compliance with all applicable regulations in line with its Code of Conduct. The brand pledged to continue to strengthen its control and audit activities.

The LVMH Moët Hennessy Louis Vuitton-owned Italian luxury house said "in breach of its legal and contractual obligations, the supplier did not inform Loro Piana of the existence of these subcontractors," and terminated all relations with the subcontractor in less than 24 hours.

When in February a Milan court lifted the judicial administration imposed less than a year earlier on Giorgio Armani Operations, a unit of the namesake designer's fashion group, the company said the decision was made because the company had taken all the necessary corrective actions to improve its already structured and tested system of controls. However, the Italian Competition Authority, or AGCM, imposed sanctions of 3.5 million euros on the luxury brand for alleged misleading advertising linked to its sustainability claims. Armani said last week that it plans to appeal the fine.

Last year, judges also placed an Italian subsidiary of Dior, which produced small leather goods for the French brand, under the same form of monitoring, but the company was cleared of any wrongdoing in May. Dior reaffirmed its commitment to "upholding our values of transparency and respect throughout our supply chain" and "dedication to pursuing both rigorous Made in Italy products and the highest standards of ethics and excellence."

Alviero Martini was also investigated over alleged worker exploitation, and in May a unit of Valentino specializing in bags was placed under judicial administration for a year by the Milan court after alleged abuse was uncovered at subcontractors.





Following the move, Valentino said it had intensified its supplier evaluation process across its supply chain in recent years and would cooperate with the relevant authorities to “fully understand the circumstances that have led to the measures taken by the judiciary in this specific case.”

Meanwhile, Carlo Capasa, president of Camera Nazionale della Moda Italiana, is pushing back against the narrative that Made in Italy production lacks ethics.

While acknowledging that wrongdoing must be uncovered and prosecuted, he strongly defended the country's high-end fashion supply chain against ongoing claims that it systematically fails to fulfill the principles of quality, work ethics and sustainability that the sector has long prided itself on.

“The message trickling down is wrong and dangerous. It conveys the idea that fashion equals labor exploitation and luxury is unethical,” Capasa said.

“As much as it shouldn't exist entirely, the illegal supply chain is confined to a small portion,” he claimed, noting how, according to reports from the National Institute for Statistics, or ISTAT, the sector allegedly employs illegally about 30,000 workers, compared to a total workforce of 600,000 people across its industrial operations. The tally, Capasa said, is far below other industries.

“According to our estimates, irregular suppliers contribute to just 2 to 3 percent of the high-end fashion production in the country,” he added.

In the most recent webcast reporting 2025 first-half and second-quarter figures, LVMH's chief financial officer Cécile Cabanis addressed the Loro Piana probe and judicial administration procedure, further adding to the conversation.

“On Loro Piana, we were not satisfied with the situation, especially because we've been working a lot since last year on reworking on all the processes, making sure that we had more audits in place,” the executive said.

“This topic is beyond Loro Piana. It's a topic that the full industry in Italy is facing, and it's something that we all will have to manage collectively with the association, with the government as a whole,” she said.

“It shouldn't create an impact on the [brand's] image.... Still, we need to make sure that — collectively with everyone — we can solve, or at least improve, the situation of the industry that should [have] very fair practices and clean supply chain, so we need to continue to work on that and obviously there is still progress to be made,” she said.

It didn't take long for Italian industry association Confindustria Moda to respond. Its president Luca Sburlati addressed Cabanis' remarks, noting that “there are indeed, and it is evident, instances of irregularities and illegal practices, which must be firmly condemned.... However, it is crucial to underline that these episodes are the exception, not the rule. Italy remains the manufacturing heart of global fashion.

“We welcome LVMH's call for collaboration. These challenges must be addressed as partners, not adversaries, with a shared long-term vision and an awareness that the entire supply chain is interdependent and transnational,” Sburlati said. “Generalizing all Italian companies as being





complicit in illegality is unacceptable, and we will strongly oppose such narratives at every level. Our country deserves better.”

A New Auditing Approach

No regulatory framework exists that sets defined supply chain auditing rules for fashion or other sectors, and perhaps there is no one-size-fits-all solution to aspire to, observers argued.

Luxury companies usually conduct several thousand audits a year on their supply chains, but the checklist-based system is often weak or insufficient and frequently outsourced to third parties, which on one side are supposedly impartial but on the other provide somewhat fragmented assessments, multiple sources said.

“We need to rethink the auditing approach. What brands need is a supplier audit system based on two pillars — a risk-based approach, and a verification process taking into account the specific operations of each supplier category,” Dentons’ Bernardi noted. Most audits currently in place, he said, “cast a wide net but often lack a tailored focus depending on the supplier’s operations... ‘one-size-fits-all checklists’ are no longer sustainable.”

The burden isn’t light, at both ends of the spectrum, but for suppliers being audited by big brands, the process can become burdensome. At the same time, brands’ frequent lack of in-house manpower and financial resources — especially at a time of market volatility and a spending downturn — contribute to their inability to check on their subcontractors.

Fashion and luxury brands’ re-shoring initiatives over the past decade have helped to curb their exposure to work exploitation incidents abroad, especially for companies that have integrated their production capabilities via new industrial facilities or the acquisition of suppliers.

“The key rationale is certainly that of securing a high-quality supply chain. Nonetheless, once that supplier becomes part of a group, internal processes are rapidly improved through dedicated procedures and multiple layers of controls,” Bernardi said.

However, as probes suggest, the phenomenon has not erased unlawful practices entirely.

If anything, the recent investigations have forced the entire sector to do better, having raised red flags for ESG metrics in the luxury sector.

“Companies that were placed under judicial monitorship had to improve their supplier auditing process, including through the enhancement of relevant checklists, which were ultimately validated by the prosecutors, and which are now setting a new industry standard,” Bernardi said.

Regulatory Framework

These incidents have highlighted the increasing regulatory and legal risks for luxury brands, although until recently the legislative framework within the European Union has been fragmented.

The enactment of the EU’s Corporate Sustainability Reporting Directive and the Corporate Sustainability Due Diligence Directive by Member States by July 2026 and enforcement a year later





starting with companies with net sales of 1.5 billion euros are seen as partially driving more transparency in the supply chain, although their proposed simplification may dodge the key issue.

Despite not receiving much attention, the EU Forced Labor Regulation that will begin to be applied from December 2027 is viewed as a strong regulatory tool.

"This regulation prohibits the placing or making available on the EU market of products made with forced labor...thus covering all stages of the supply chain," Bernardi explained. "It mostly takes the perspective of enforcement authorities, detailing the controls that they need to conduct...While enforcement authorities will bear the burden of establishing the existence of instances of forced labor, luxury groups — like any other company — will have to rely on the soundness of their supply chain due diligence processes."

In Italy, industry associations and trade unions are pressuring the Ministry of Enterprises and Made in Italy to define a countrywide mandatory protocol and policy to ensure the luxury sector complies with fair work standards.

A fashion roundtable held in July at the ministry moved the conversation forward, although no advancement is expected before the end of the summer.

"A national law is needed...and it should introduce third-party certification of the production supply chain, granting a presumption of legality to certified companies based on independent criteria ensuring complete transparency," Camera della Moda said in a statement. "It is important to note that this supply chain, by its very nature, operates on a national and often international scale."

"Regular employment, traceability and compliance must become systemic standards for the sector in order to safeguard our most valuable brand: Made in Italy," said Confindustria Moda's Sburlati. "A unified national auditing protocol is not only desirable but also necessary and urgent. We may not fully realize it, but we are facing attacks even from abroad."

"It is baffling that institutional players are unable to establish a mandatory nationwide system for certifying legality across the supply chain....Such a system is essential to safeguard the entire manufacturing sector," echoed the unions Filctem Cgil, Femca Cisl and Uiltec Uil in a joint statement.

According to Confindustria Accessori Moda president Giovanna Ceolini, one first step is ensuring that "employment contracts are limited to those negotiated and signed by the sector's most representative trade unions, rather than company-level agreements. It is essential that the entire production chain operates in full compliance with all applicable laws and regulations, ensuring fairness, sustainability and dignity for all parties involved."

A Local Protocol

As many of the claims of alleged work abuse have involved companies based in the Lombardy region, the Milan Prefecture promoted in May a memorandum of understanding to tackle worker exploitation, undeclared work, tax evasion and unfair contractual practices in the fashion supply chain.





Confindustria Moda, Confindustria Accessori Moda and Camera Nazionale della Moda Italiana were among other entities that undersigned the non-legally binding memorandum.

In the signed document reviewed by WWD, the Milan Prefecture proposed the creation of a voluntary digital supply chain platform for fashion companies, requiring mandatory updates every six months.

Brands are expected to encourage their suppliers to sign onto it, as well as impose compliance with labor, fiscal, health and safety laws and implement onboarding processes, ethical codes of conduct, audits and targeted staff training.

Supply chain players are invited to extend compliance clauses to subcontractors through cascading contracts and enforce scheduled and surprise audits.

Companies adhering to the platform, free of charge, will receive a Fashion Sector Transparency Certificate, or "green badge," valid for six months and renewable, along with access to financial incentives from the Lombardy region.

The proposal's scope is limited to the Lombardy region, which observers have described as one of its weaknesses.

"Given the existing framework, the platform itself will not be decisive. Once again, supplier registration is voluntary and the territorial scope of the protocol regional — at least for the time being," Dentons' Bernardi said.

"Let's also remember that Italy's manufacturing base is primarily composed of small and medium-sized enterprises. The platform registration process is time-consuming, and I am curious to see how many small companies that already have long-standing ties with brands will actually be willing to invest time and resources into this," he said.

"The current market contraction might encourage some of them to make the effort, perhaps to better position themselves toward the brands, but many simply lack a qualified in-house workforce to handle these procedures," he opined.

"The platform will not be accessible to the public, who will therefore be unable to exercise any oversight of corporate conduct," said Deborah Lucchetti, national coordinator of the Italian branch of the Clean Clothes Campaign global organization.

"The protocol rightly points the finger at the top of the supply chain, where true responsibility must be sought. But it leaves hanging in the air one deafening question: what became of all the workers who, for years, were victims of forced labor, exploited with inhumane hours and stripped of their rights? What happened to them once the brands' supply chains were 'cleaned up' through judicial oversight?" she questioned.

To this end, a court case that began in July that was initiated by six, now-former workers of Z Production — a Tuscany-based handbag supplier to Compagnie Financière Richemont-owned Montblanc — could set a legal precedent in Italy.





The six Pakistani workers, supported by trade union Sudd Cobas and the Clean Clothes Campaign, allege that the relationship between Z Production and Pelletteria Richemont Firenze — a Scandicci, Italy-based Richemont subsidiary — did not constitute a genuine subcontract and so they seek recognition as direct employees of Pelletteria Richemont Firenze.

The case goes back to 2023, when the workers alleged that they were paid as little as 3 euros an hour, working 12 hours a day, six days a week, Sudd Cobas said. The latter organized months-long strike campaigns to secure better working conditions.

After Z Production's contract with Pelletteria Richemont Firenze was terminated within less than a month of the union agreement, the workers were laid off and now seek reintegration into the Montblanc supply chain, said Francesca Ciuffi, a representative of the Sudd Cobas union.

"It was only when the workers decided to unionize...that things changed. Less than a month later, Richemont terminated the contract, effectively carrying out an antiunion policy and paving the way for the workers' dismissal," she claimed.

"Should the six Pakistani workers leading the case succeed, the ruling could represent a turning point for thousands of exploited workers across the Made in Italy supply chains. It would be the first time a fashion brand is held directly responsible for working conditions within its supply chain," the union said in a statement.

Montblanc has rejected the allegations, claiming that the "decision by former supplier Z Production to dismiss six of its employees was an independent choice by the company, made nearly 18 months after the notification and 10 months after the termination of the contract."

Brand Accountability

Perhaps the most immediate impact of these scandals has been on brand perception and goodwill.

"The operational management of client companies cannot focus solely on cost reduction. Quality requires investment, know-how and time. A supply chain driven only by price [wars] ultimately undermines the perceived product quality by end customers. This is a real and present risk," said Sburlati.

To be sure, debate is growing among social media netizens over the worthiness of luxury brands' products.

Many have expressed frustration and disdain over the discrepancy between manufacturing costs and related retail prices, which they allege is proof of worker abuse practices, as widely suggested in media reports about the case involving Loro Piana, which reports claimed sells cashmere jackets retailing for 3,000 euros, which, through its subcontractors, would allegedly cost only 100 euros.

As reported, the luxury label firmly denied this claim, saying that "the reported cost figures are not representative of the amounts paid by Loro Piana to its supplier, nor do they consider the full value of all the elements, including, among others, raw materials and fabrics."





“One of the key components of fostering human rights throughout the supply chain is that of ensuring that all workers involved receive a wage that allows them to maintain a decent standard of living for themselves and their family, that often goes beyond applicable minimum wage requirements,” Bernardi said.

“We’re talking about living wages. If the price you’re paying for a handbag doesn’t allow workers to afford this, then yes, there could be allegations that human rights are being violated....The issue isn’t about price disparity at retail but rather providing a fair price to suppliers that ensures adequate working and living conditions for all workers across subcontracting tiers,” he said.

Capasa, the Camera della Moda president, also refuted in recent remarks the reports about the differential between manufacturing costs and retail prices. However, compliance and fair labor practices are increasingly important elements of brand equity, especially at a time of rising price tags.

According to Capasa it’s not just luxury brands’ aura of quality, exclusivity and trust that is at stake, but “the survival of the entire supply chain.”

ad

