

ETHICAL TRADE MEASURING UP?



THESE ARE ALL MEMBERS OF

'Ethical trade' involves companies taking responsibility for the conditions of hundreds of millions of people around the world who grow or make consumer goods – everything from tea to T-shirts, from flowers to footballs. But 'doing' ethical trade is much harder than it sounds. ETI corporate, trade union and NGO members work together to tackle the many complex questions about what steps companies should take to trade ethically, and to make a positive difference to workers' lives.

This review shows **how they – and we – are measuring up** to the task.

Corporate members*

- Adolfo Dominguez
- Arco
- Asda
- Associated British Foods (Primark)
- Boots
- Chiquita Brands International
- Co-operative Retail
- Debenhams Retail
- Dewhirst Group
- Ethical Tea Partnership
- Flamingo Holdings
- Fyffes Group
- Gap Inc.
- Greencell
- Icon Live
- Inditex
- Jaeger
- Johnson Clothing Group
- London Underground
- Madison Hosiery
- Marks & Spencer
- Marshalls
- Monsoon Accessorize
- Mothercare
- New Look Retailers
- Next plc
- Pentland Group
- Premier Foods
- Quantum Clothing Group
- Ringtons
- Rohan Designs
- Rombouts
- Sainsbury's
- Stone Emporium
- Supremia
- Tesco
- The Body Shop International
- Ty.phoo
- Union Hand-Roasted
- WH Smith
- Windward Islands Banana Development and Exporting Company (WIBDECO)
- William Lamb Footwear
- World Flowers

* as at September 2007

OF ETI. WHY?

“There are limits to what companies can achieve by working alone. ETI members have committed to work in partnership to find solutions to the problems that occur in individual workplaces, but that also affect entire countries and industries.”

Dan Rees Director, Ethical Trading Initiative

NGO members*

- Africa Now
- Anti-Slavery International
- CAFOD
- CARE International UK
- Central American Women's Network (CAWN)
- Christian Aid
- Dalit Solidarity Network UK
- HomeWorkers Worldwide
- National Group on Homeworking
- Oxfam GB
- Quaker Peace & Social Witness (Religious Society of Friends)
- Save the Children
- The Fairtrade Foundation
- Traidcraft Exchange
- TWIN Trading
- Women in Informal Employment: Globalising and Organising (WIEGO)
- Women Working Worldwide (WWW)

Trade union members*

- International Trade Union Confederation (ITUC)
- International Textile, Garment and Leather Workers' Federation (ITGLWF)
- International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Association (IUF)
- Trades Union Congress (TUC)

WHAT DOES IT MEAN TO BE A MEMBER OF ETI?

ETI membership offers companies the opportunity to learn how to put ethical trade into practice, and to increase their impact by working in collaboration with other ETI members. It also brings a requirement to demonstrate progressive improvements in performance.

Companies – a commitment to improve

Membership brings companies unique opportunities to learn from the leaders in the complex and fast-moving field of labour standards. It also brings obligations. When companies join ETI they are expected to:

- adopt the **ETI Base Code** in full. The Base Code is based on the standards of the International Labour Organisation
- develop and implement a credible strategy for improving working conditions in their supply chain
- address the impact of their commercial practices on their suppliers' ability to provide decent conditions for workers

- participate in ETI projects that aim to develop good practice in ethical trade, and
- report annually to the ETI Board.

We measure their progress in implementing the ETI Base Code over time, and have a strict disciplinary procedure for companies that make insufficient progress or flout membership obligations.

Trade union and NGO members – scrutiny and influence

Our tripartite approach to addressing workers' rights permeates our work. ETI trade union and NGO members are actively involved in all ETI's work, from Board-level strategic decisions to chairing ETI projects, providing feedback on company annual reports to ETI, or working on specific projects on a one-to-one basis with member companies.

“Co-operation with ETI member companies has been possible through a long process of developing trust under ETI's stewardship.”

Neil Kearney | General Secretary, ITGLWF

WHY SIGN UP TO THE ETI BASE CODE?



1

Employment is freely chosen



2

Freedom of association and the right to collective bargaining are respected



3

Working conditions are safe and hygienic



4

Child labour shall not be used



5

Living wages are paid



6

Working hours are not excessive



7

No discrimination is practised



8

Regular employment is provided



9

No harsh or inhumane treatment is allowed

BECAUSE...

Slavery, bonded labour and other illicit means of tying people to jobs are totally unacceptable. 12.3 million people around the world work as slaves or in other forms of forced labour

Tens of thousands of workers lose their jobs every year for attempting to join a trade union. Some lose their lives

Every day 5,000 people around the world die from work-related accidents or diseases. Most of these tragedies could be prevented

218 million children work to support their families, missing out on education and often damaging their health

If people can't feed their families on an adult's wage, they often end up sending their children out to work. Three billion of the world's poor live on less than two dollars a day

Long working hours are the norm for most of the world's workers. This damages people's health and undermines family life

Women and certain minorities are often confined to the lowest-paid jobs with no access to training or promotion

The casualisation of workforces around the world means that increasing numbers of workers can be hired and fired when it suits employers

Few workers have adequate protection against physical, verbal or sexual abuse in the workplace

ARE WE MEASURING UP?

After almost a decade of activity, with a growing membership and international recognition for our work, we have much to celebrate. But our 'bottom line' is simple: do we make enough of a difference to the lives of workers in supply chains that span the globe?

In this review we ask:

- 8-9 Are we helping workers help themselves?
- 10-11 Are we nurturing effective local partnerships?
- 12-13 Are we influencing the right people?
- 14-16 Are we stepping up to the mark in a crisis?
- 18-26 Are members getting better at ethical trade?

There are two aspects to our impact. First, there are our collective efforts as ETI member companies, trade unions and NGOs. Are we contributing to the growing body of knowledge about what constitutes good practice in ethical trade? Are we persuading not only companies but also governments, employers and consumers of the need to get involved, and helping them understand how they can make

“Findings from the ETI impact assessment have helped us promote internally the positive impact of our ethical trade programme, and its recommendations have fed into future work plans.”

Sara Clancy Ethical Trade Manager, The Body Shop

a difference? Are we nurturing the local partnerships in sourcing countries that are critical to driving change from the bottom up? Are we helping workers help themselves?

Second, we must also judge ourselves on how far our member companies are putting their ethical trade principles into practice in their own supply chains. **Are they getting better?**

In their own words



Although it's important to report on our performance using quantitative, measurable indicators, they can never provide the full picture. They can't describe the changed attitudes of a supplier manager towards trade union rights, or the new possibilities open to a child who is able to complete her schooling after spending years as a worker. So while we provide many facts and figures in this report, we have also tried to capture the impact of our work on people's lives, in their own words. After all, this is the ultimate measure of our success.

What an independent assessment found



An independent evaluation of ETI members' ethical trade activities concluded that "ETI and its member companies are making an important contribution through collaboration and learning". Researchers at the Sussex-based Institute of Development Studies found that improvements for workers have been made in crucial areas such as improving health and safety, reducing child labour, increasing wages and reducing the incidence of excessive overtime. They found that real progress has yet to be made in other key areas, such as extending the reach of codes to particularly vulnerable workers, for example migrant workers, and in helping workers organise for themselves through trade unions. Download *The ETI code of labour practice: do workers really benefit? Report on the ETI Impact Assessment 2006* (series) at: www.ethicaltrade.org/d/impact



ARE WE HELPING WORKERS

A critical gauge of our success is whether we are helping workers understand what their rights are and creating the conditions for them to fully exercise them. This year our projects and working groups put worker empowerment at their heart.

Sri Lankan garment workers learn about their rights

This year we concluded a major project that has tested different approaches to workplace auditing. This involved comparing different auditing techniques as well as different compositions of audit teams, to find out which approach provided the most accurate picture of workers' conditions. Over the past year, ETI Sri Lanka Group members have organised the training of nearly 4,000 workers in three of Sri Lanka's largest garment factories to help prepare them for a series of trial audits.

ETI Sri Lanka Co-ordinator, Sonali Gunsekera, says: "the training has helped reinforce workers' knowledge about their rights. And I think it has helped them to know that even if their lives are hard, UK buying companies and Western customers are sending strong messages to suppliers that they should not be exploited."

One clear finding from the audits was that the most revealing results came from teams that included individuals with strong local knowledge and also interviewed workers away from their workplaces. And according to Sonali, it also helped if auditors had personal attributes such as "compassion, objectiveness, fearlessness in pursuing information and the mind of a detective."

As well as overseeing the trial audits, the Group developed an experimental 'complaints mechanism' to investigate and respond to complaints made by garment workers via a telephone 'hotline'. Consensus on how the mechanism should operate was reached by companies, NGOs and trade unions alike, and a key lesson was learned about the importance of investing time in building workers' trust in the process. Find out more about the ETI Sri Lanka Project at: www.ethicaltrade.org/d/srilankaproject

Improved security and skills for Indian homeworkers

For many retailers, India is the place to find the skills required to produce the exquisite hand-worked, embellished clothing and accessories that fashion-conscious consumers love. Homeworkers are the backbone of this Indian export industry, yet are often invisible in the supply chain and suffer poor living and working conditions. High rates of occupational injury and disease are compounded by lack of access to training and information about rights and entitlements.

ETI India Co-ordinator Vinita Singh has been helping the Indian National Homeworker Group and its local branch, the Bareilly Homeworker Group, for the past year to develop co-

ordinated strategies to improve homeworkers' conditions. She says: "This is the first time that trade unions, retailers, suppliers and contractors – the people who give work to homeworkers – have co-operated on this issue to such a degree."

The results so far are impressive. One of the Bareilly Group's first achievements has been to link homeworkers with government-run personal accident and illness insurance schemes. "For homeworkers, losing your eyesight from poor lighting, or the use of your hands from an accident, can mean your entire family loses its only source of income." says Vinita. "A government

HELP THEMSELVES?

insurance scheme already existed to provide some cover in such cases, but homeworkers weren't aware of it and the agency concerned lacked the funds to administer it." Contractor members of the Group encouraged homeworkers to join the scheme, collected all the documents needed to process the applications and submitted them to the government agency. The families of over 550 Bareilly homeworkers are already benefiting.

Ayesha is one of those homeworkers. She says: "We never thought of insurance as no-one had ever told us about it. I came to hear about the government insurance scheme through [the Bareilly Group], and I am happy to invest in it."

Over 1,500 homeworkers in Bareilly have also improved their knowledge and skills in simple record keeping, quality, health and safety as well as healthcare through ongoing training organised by the Bareilly Group. Rani, a homemaker who learnt how to keep simple records, said: "After attending the training, I have now started keeping a record book and make sure every transaction is recorded in it. It is evidence for the work we have done and the payments received." Find out more about ETI's work on homeworkers at: www.ethicaltrade.org/d/homeworker



ARE WE NURTURING EFFECT

The ETI impact assessment demonstrated that workers' issues are most effectively tackled through joint action among companies, suppliers, local trade unions and NGOs. This year we've helped build dialogue and trust in key sourcing countries, where it counts most.



Turkey:

consensus on tackling garment workers' issues

Mistrust between trade unions and employers, cost pressures holding down wages and excessive working hours are serious challenges facing workers in the Turkish garment industry. Working with five other multi-stakeholder initiatives from other countries, we helped build unprecedented

consensus among local manufacturers, trade unions and NGOs about the most pressing issues, and created a blueprint for tackling them. Find out more about the work of the Joint Initiative on Corporate Accountability and Workers' Rights (JO-IN) at www.jo-in.org



UK:

cross-industry collaboration on migrant labour

A huge influx of almost two million migrant workers is dramatically changing the structure of the UK workforce and posing new employment challenges. The trade union Unite (T&G section) which is affiliated to the TUC and the IUF, both ETI members, is concerned that a 'two-tier' workforce has developed in the food and poultry sector. It is campaigning for pay parity for agency workers – who are predominantly migrant – and permanent workers, as well as strict limits to the length of temporary contracts. Pulling together retailers, manufacturers, trade unions and industry stakeholders, ETI commissioned research to identify improvements needed to employment practices in the industry. The process so far has produced consensus among ETI members on the need for:

- better information about workers' rights in their own languages
- more transparent information about, and access to, permanent work
- accessible English language teaching for workers
- a review of retailer buying practices to examine how these may be affecting suppliers' employment practices.

Discussion continues about union proposals for a 'single industry approach' to minimum employment conditions for agency workers.

Find out more about ETI's projects and working groups at:

www.ethicaltrade.org/d/projects

TIVE LOCAL PARTNERSHIPS?

South Africa: training supervisors



Our relationship with the Wine and Agricultural Ethical Trade Association (WIETA), a multi-stakeholder initiative focused on improving the conditions of workers in the agricultural sector, continues to strengthen. This year we worked with

them to develop a training manual for site supervisors aimed at tackling discrimination and sexual harassment of workers. Informed by a series of meetings with site supervisors, the training will be piloted in early 2008.

China: fostering co-operation



ETI China Representative Dimitri Kessler has been mobilising and supporting ETI member companies' Hong Kong and China-based staff to share their approaches to tackling ethical sourcing issues and develop collaborative projects. One such project being carried out by an ETI member

company and a Hong Kong-based NGO is to develop a protocol for responding to child labour. The ETI China Group as a whole is also working on a wider project aimed at promoting dialogue between workers and management.

Colombia: cultivating trust in the flower industry



In recent years the murders of hundreds of Colombian trade unionists and the resulting climate of fear has made it very difficult for constructive debate to take place between companies and unions on labour rights. This year we brought Colombian flower exporters, trade unions, NGOs and companies sourcing from Colombia to the table for the first

time. At a seminar in April 2007, all parties agreed to establish the first-ever multi-stakeholder forum for addressing workers' rights in the floriculture industry. This may seem a modest step, but for some 90,000 people who work on Colombian flower farms, it could be a significant one. See www.ethicaltrade.org/d/colombia

Bangladesh: a national programme for action



Our members continue to help build consensus in Bangladesh among government, manufacturers and trade unions on what needs to be done to improve the garment industry's poor record on labour standards while improving productivity and maintaining international competitiveness. This year we helped develop a major proposal for a three-year roadmap to improve labour standards and competitiveness across the industry. The proposal is now being considered by

international donors, including the UK Department for International Development (DFID) the World Bank, the United Nations Development Programme (UNDP) and others. Up to 20 million people who are involved either directly or indirectly in the Bangladesh garment industry stand to benefit. **Find out more about our work within the MFA Forum on page 14.**

ARE WE INFLUENCING THE

Retailers and brands are responsible for using their buying power to influence the employment practices of their suppliers, but governments, employers, trade unions and even consumers have a distinct and vital role. This year we've worked hard to persuade the right people to play their part in protecting workers' rights.

Governments

Advocating policy reform

- At around £125 billion a year, UK public sector spending on goods procured from overseas dwarfs that of ETI members, yet government guidelines on ethical sourcing are unclear. This year we lobbied the UK Government to provide clearer guidelines and to create an enabling environment for ethical sourcing.
- In January 2007, we joined ETI member company Monsoon in presenting the case for homeworkers to the

Indian Government at a conference organised by the Self Employed Women's Association. Monsoon representatives highlighted the importance of homeworkers' skills to the Indian export economy and to retailers themselves, and advocated that they should receive the same legal protection as the formal workforce. Later in the year, the Government announced an extension of social security protection to homeworkers and other informal sector workers.

Consumers

Harnessing a potential force for change

- A series of campaigns and media exposés throughout the year have highlighted low wages, excessive working hours and poor treatment suffered by workers in UK retailers' supply chains. Having worked hard to build a growing presence across broadcast and print media, we are increasingly able to get our messages across.
- According to the Co-op Bank, 61% of consumers say they would choose a product on the basis of a company's reputation – 10% more than in 1999. This year we produced and promoted widely a new *ETI Factsheet for Consumers* to educate consumers about what companies should be doing and how consumers can help make a difference.

✓ Top Tips

How to be an ethical consumer

- **Buy from ETI members** – they have made serious commitments to ethical trading and their activities are scrutinised by ETI trade union and NGO members
- **Ask searching questions** – write to CEOs; ask store staff if they know where their products come from
- **Learn more about the issues** – see our Factsheet at www.ethicaltrade.org/d/ethicaltrade
- **Join a campaign for better conditions in supply chains** – our Factsheet has some examples.

RIGHT PEOPLE?

Retailers and suppliers

Reaching the decision makers

- This year we continued our bid to convince more retailers and brands to take ethical trade seriously. We addressed meetings ranging from the inaugural convening of the World Retail Congress in March 2007, attended by over 1,000 major retailers from 146 countries, to a summit of leading fashion retailers organised by Drapers magazine in London. Our overriding message has been the importance of integrating ethical trade into core business activities.
- We supported ETI member companies in their efforts to increase suppliers' understanding of ethical trade and spur them into action. For example, we presented at several major supplier conferences organised by member companies in China and the UK and developed tailor-made communication tools to help members persuade their suppliers to take workers' rights seriously.
- ETI members distributed over 4,000 copies of a new ETI poster on ethical trade to buyers, retail staff and others around the UK. This is helping to reinforce the message that tackling workers' rights concerns everyone in a company, not just the ethical trade team.
- Next year we will release DVDs for suppliers and retailers that explain the business imperative for ethical trade.



Tools of the Trade

Key ETI resources

- **ETI Workbook edition 2** – a step-by-step manual for companies that explains how to put ethical trade into practice
www.ethicaltrade.org/d/workbook
- **New supplier presentation slides** – for retailers to explain the business benefits to suppliers of complying with codes, with case studies
- **ETI posters for suppliers** – five key reasons for complying with codes of practice, in Chinese and English
- **Guidelines for implementing the ETI Base Code with smallholders and homeworkers**
Download at:
www.ethicaltrade.org/d/smallholderguide
www.ethicaltrade.org/d/homeworkerguide

Download ETI's new resources catalogue at www.ethicaltrade.org/d/resources or call the ETI Secretariat on +44 (0) 20 7841 5180 to obtain hard copies

“I've found that presenting our overseas suppliers with the ETI awareness-raising posters immediately conveys a sense of what ETI and ethical trade are about. It makes our communication more effective and each site we visited this year appreciated our commitment to ethical trading as a member of ETI.”

Shah Khan Technical and Ethical Manager, Ty.phoo

ARE WE STEPPING UP TO T

When ETI member companies are alerted to serious violations of workers' rights within their supply chain, it is vital that they respond swiftly and effectively. This year we galvanised our members to work together to resolve a series of major crises for workers.



Lobbying the Bangladeshi Government on wage levels

Angry protests by workers across the Bangladeshi garment industry throughout the summer of 2006 sounded a wake-up call for all those involved in the sector. Rapid action is vital to address the shockingly low wages, excessive hours and harsh treatment that have become a reality for up to three million workers in the country.

ETI member companies, including Asda, Gap Inc., Inditex, Marks & Spencer, Next and Tesco account for a large proportion of Bangladesh's garment exports. On the advice of the ETI Board and our trade union and NGO members, all pledged to continue sourcing from Bangladesh as long as the Bangladeshi Government and trade associations fulfill their own responsibilities to improve standards across the industry. They supported local calls to increase the monthly minimum wage from its 1994 level of 900 taka (around US\$13) to 1,660 taka (US\$22).

“ETI members have worked hard to persuade the Bangladeshi Government and manufacturers that improving pay and conditions for workers will ultimately help the country compete with its rivals – and continue to provide jobs for millions of garment workers. The minimum wage is still too low, but at least we're heading in the right direction.”

Maggie Burns ETI NGO board member

The MFA Forum



All ETI member companies that source from Bangladesh are part of a wider, multi-stakeholder group called the MFA Forum which is working to mitigate the impact of the end of textile and garment quotas on workers. Find out more at: www.mfa-forum.net

THE MARK IN A CRISIS?



Supporting trade union rights in Turkey

In April 2006, the Turkish union Teksif made an official complaint against the garment factory Paxar, claiming its members had been unfairly dismissed and prevented from joining the union. Working in co-operation with our JO-IN partners, we took the lead in encouraging and observing negotiations between Teksif and Paxar. Issues concerning reinstatement and compensation of dismissed union

members were resolved, but, with continuing mistrust between the union and employer, negotiations over a collective agreement broke down many times. Finally, in early 2007, both parties signed an agreement that Engin Sedat Kaya, Teskif union organiser, says will “confer significant benefits on Paxar workers.” Find out more about ETI’s work in Turkey as part of JO-IN on page 10.



Secrets and lies – tackling the audit crisis

When ETI members questioned the quality of many audits of supplier workplaces, we commissioned under-cover filming to show what really goes on during audits. The film footage revealed widespread complicity between workplace managers and auditors in the falsification of audit reports. The film has proved popular for companies as an awareness-raising tool. We continue to lead discussion within our membership and beyond on how to tackle the growing crisis in ethical trade auditing. Members have suggested solutions that include:

- focusing on the business benefits for suppliers of improving productivity – not just narrow ‘compliance’
- communicating better with suppliers, to help build their confidence in the process
- increasing quality control of external audit companies
- using specialised, local auditors to carry out worker interviews
- doing fewer audits, and spending more time helping suppliers develop management systems.

Contact the ETI Secretariat to obtain a copy of the *Secrets and lies* video. The associated report can be downloaded at: www.ethicaltrade.org/d/resources





Child labour in China – an urgent lesson

In March 2006, over 300 children, some as young as 12 or 13, were found working in two glassware factories in Shanxi province. We steered four ETI member companies sourcing from the factories to work with the suppliers and other retailers involved and agree a joint response which protected the interests of the children concerned. This involved removing the children from the hazardous work environment and getting them back into education.

A major challenge was the lack of appropriate local schools and this contributed to many children dropping out of the project, some saying schooling was 'worthless'. But ETI was able to send a minority of the children to a good technical training school to learn skills such as computing, welding and cooking. According to ETI China representative Dimitri

Kessler, the children who were lucky enough to attend a better school felt new horizons open up: **"The shift in attitude of these children was pointed – they developed a new awareness of their possibilities in life."**

Through this work, ETI members also discovered that child labour in Shanxi, one of the poorest provinces in China, is more extensive than previously thought. They are now exploring ways to broaden their work to address the root causes of local child labour, and are also seeking to discuss the wider issues raised with the Chinese Government.

Xiao Li's story



Work in glass-blowing factories is tough. Typically workers toil for long hours, seven days a week in high temperatures and dangerous conditions, without protective equipment. The heat is tiring, and a serious risk to workers in the summer. Xiao Li used to be one of those workers, but was lucky enough to be placed in a relatively good local school through our remediation programme. Although the education provided by the school is by no means perfect, Xiao Li believes it has opened up new opportunities for her. She says: **"It was not until we arrived at the new school that I figured out, without knowledge, it's impossible to rise in this society."**

CORPORATE REPORTING



ARE MEMBERS GETTING BETTER?

Collectively, the ability of ETI corporate, trade union and NGO members to drive change for workers is impressive, but we must also judge ourselves on whether member companies are putting ethical trade into practice in their own supply chains. This is how they performed in 2006/7.

What does 'good practice' look like?

We are often asked how we decide what a credible ethical trade strategy consists of. For inexperienced companies, a good start is to develop a system for auditing suppliers against the ETI Base Code, identifying areas that need improvement and putting in place an effective system for follow-up. Companies that have already built a credible monitoring system need to look at how they can support their suppliers to make workplace improvements, and to start integrating ethical trade into their core business practices. They also need to put workers 'centre stage',

cooperating with trade unions to help build mature systems of industrial relations within their supply chains.

Our annual reporting framework assesses:

- **management performance** – the efforts that companies put in, and
- **supplier performance** – the improvements to working conditions that are registered at supplier sites.

How do we assess performance?

We define the five key management principles of a company's ethical trade strategy as:

- 1 Demonstrating commitment
- 2 Developing a credible system for monitoring the supply chain
- 3 Building support and skills within the company and its supply base
- 4 Ensuring suppliers take action to improve workers' conditions
- 5 Integrating ethical trade into core business.

Member companies rate their performance against these principles in a ladder of improvement from 'beginner' to 'leader' in each area. This approach reflects our shared view that what's important is for companies to demonstrate

progress over time – they are not expected to be 'perfect' when they join. Company assessments are then checked by independent consultants, who may change a rating if they disagree with a company's self-assessment.

“We have found ETI a useful forum for debating and discussing with other retailers – learning from our peers has been helpful in developing our own initiatives.”

Sarah Heath Corporate Responsibility Manager, WHSmith

BETTER AT ETHICAL TRADE?

ETI corporate membership profile

- 43 member companies
- Combined turnover of £107 billion
- 30,554 suppliers covered by members' ethical trade activities
- 3.3 million workers employed by those suppliers

“It’s a time-consuming task for us to prepare our annual report to ETI, but doing so gives us the opportunity to stand back and focus on what we have achieved and where we should be doing better.”

Gavin Bailey Director, Ethical Tea Partnership

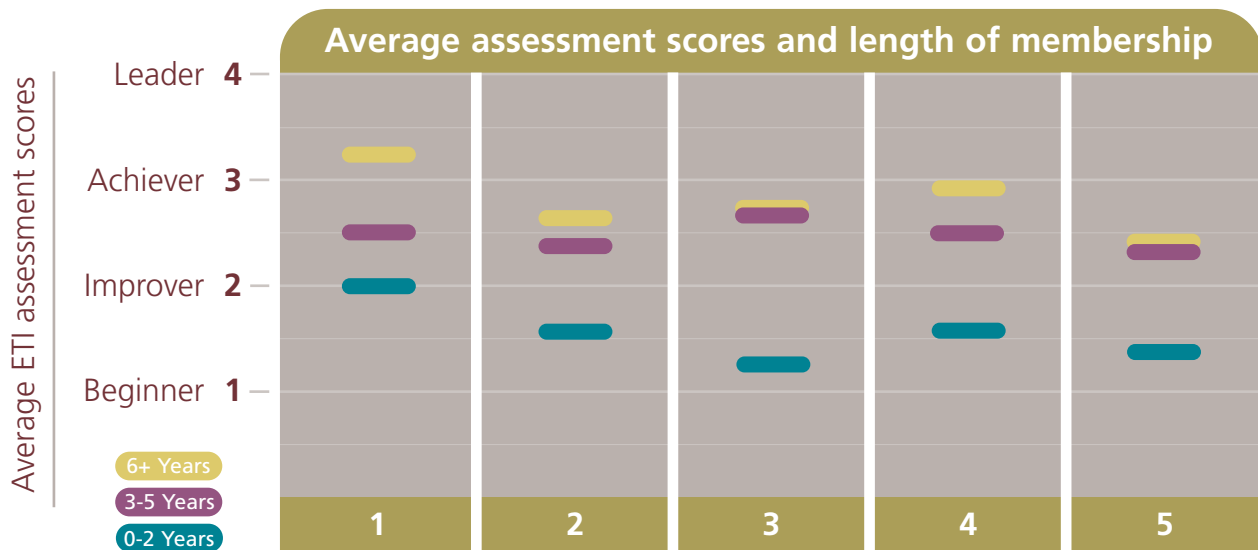
Key trends

1 Ethical trade performance improves with length of membership

Looking at the overall results, it is clear that longevity of membership is linked to better performance. The greatest improvement is in the first three to four years of membership, with companies moving from beginners or improvers to achievers.

2 Room for improvement

Companies all perform best at principle 1 – demonstrating their commitment, and least well on principle 5 – integrating ethical trade into business practices. The hardest challenges for companies appear to be in making substantive improvements on principle 5, and in making the transition from ‘achiever’ to ‘leader’ status across all five management principles.



Management principles (as defined on facing page)

Principle 1: Demonstrate commitment

Why we measure this

The resources a company allocates to ethical trade, the extent to which senior management – including chief executives – are involved in it, and the number of people working on ethical trade are clear indicators of a company's overall commitment.

What good practice looks like

Leaders in the field can demonstrate board-level endorsement of ethical trade, play a public advocacy role and have an adequate level of human and financial resources to implement their ambitious ethical trade strategy.

Overall trends

Responsibility for ethical trade rests at an ever higher level within ETI member companies, with increasing levels of staff and resources allocated.

Key performance indicators 2006-7

- **Advocacy**
76% of ETI member companies acted as advocates for ETI and ethical trade at external events.
- **Expenditure**
£8.6 million was spent on ethical trade activities.
- **Human resources allocated**
335 full-time staff were dedicated to ethical trade.

Room for improvement

Most member companies are performing better on this management principle than any other, but a handful of members have a low level of resources relative to the size of their supply chains.

Principle 2: Develop a credible monitoring system

Why we measure this

Knowing what's happening on the ground is the first step towards behaving responsibly. The backbone of any ethical trade programme must be a credible system for assessing labour practices throughout the supply chain.

What good practice looks like

Companies use our good practice guidelines for assessing workers' conditions, involving unions and workers' representatives throughout the inspection process, using teams with adequate skills to interview workers and digging deep to find out what conditions are like for particularly vulnerable workers. Their monitoring system extends beyond

the first tier of their supply chain – the suppliers with whom they have a direct relationship – to areas that are more difficult to reach, but where there may be a greater risk of abuses of workers' rights, for example subcontractors.

Overall trends

Member companies are increasingly using external organisations such as trade unions, NGOs and academics to cross-check findings and provide a more rigorous assessment of workers' conditions. A few companies are making serious attempts to reach particularly vulnerable workers such as smallholders and homeworkers.

Key performance indicators 2006-7

- **Size of scoped supply base**

Over time we expect member companies to extend their 'scoped supply base' – that is, the suppliers covered by ethical trade activities, including audits. This year there has been a 63% increase in the numbers of suppliers covered by ETI members' ethical trade activities.

	2006	2005
First-tier suppliers	18,291	15,953
Second-tier suppliers	12,211	2,657
Third-tier suppliers	52	21
Total suppliers	30,554	18,631

- **Number of sites inspected or subject to risk assessments**

As companies extend the reach of their activities we should equally see an increase in the numbers of site inspections and risk assessments carried out. Unsurprisingly, there has been a significant increase in absolute numbers of sites either risk assessed, inspected or both.

- **Numbers of workplace inspections**

Members carried out over 6,700 inspections of supplier worksites.

Type of assessment	2006	2005
Risk assessments	6,711	4,164
Inspections	6,725	5,914

- **Use of external organisations**

At least 50% of member companies used external organisations such as NGOs to provide some form of verification of the findings of their inspections, albeit in most cases on a sampled or experimental basis.

- **Extending scope of auditing**

Companies are going beyond their first-tier suppliers to assess conditions further down the supply chain.

Room for improvement

We will be encouraging more companies to extend in-depth auditing activities to the most vulnerable workers, including homeworkers and smallholders, and to address the widespread problem of audit fraud and improve the quality of audits more generally (see p15).

Case study: Asda's ethical trade training for buyers



This year Asda implemented an extensive programme of ethical trade training and awareness-raising for buyers and merchandisers across the business. Each session covered the ETI Base Code and ETI, key findings and trends from Asda's workplace audits and the challenges faced by workers in different industries. Breakout sessions helped buyers understand the potential for 'unintended consequences' to workers' conditions that might arise from purchasing decisions.

Principle 3: Build support and skills

Why we measure this

Regular communication with suppliers is essential to building their trust and helping them understand what they need to do to comply with the Base Code. Staff across buying companies also need to understand what part they can play.

What good practice looks like

Companies make sure key internal staff, including buyers and other commercial staff, receive regular training. Where possible, they develop long-term relationships with suppliers that are built on trust, and give them practical support, including training and management advice, to help them comply with the ETI Base Code. Companies also engage at a strategic level with trade unions or other workers' representatives to develop agreed improvement plans with suppliers.

Overall trends

Although ETI member companies scored themselves relatively poorly on this principle, more companies are starting to develop comprehensive training programmes for

buying staff, and some are investing in supplier training and awareness-raising.

Key performance indicators 2006-7

- **Staff training**
4,775 staff received a total of 22,000 hours of ethical trade training.
- **Supplier training and awareness-raising**
Training was delivered to:
 - 1,891 supplier managers
 - 715 site managers
 - 140 worker representatives.

Room for improvement

Although a few members are clearly attempting to find ways of working through their suppliers to educate workers about their rights, we have yet to see widespread progress in this challenging area.

Case study: How Next plc is winning support from suppliers



When suppliers are asked by retailers to adopt ethical trade principles, their first response is usually 'how much is this going to cost?' Appealing to suppliers' hearts as well as minds has proved a powerful form of persuasion for the Next plc ethical trading team, who this year launched an ambitious awareness-raising programme aimed at building supplier support for their ethical trade strategy.

So far the Next team has delivered six conferences to a total of 278 key suppliers, representing 294 factories in the UK, India, China and Thailand. The format of each conference was tailored to meet the needs of each sourcing country, but all provided positive case studies of other suppliers who have changed their attitudes, as well as hard-hitting footage of some of the issues that Next is seeking to address.

Pam Batty, head of ethical trade at Next says: "We wanted to show our suppliers that ethical trade isn't just about passing or failing audits – it's about people's lives."

Principle 4: Ensure suppliers improve workers' conditions

Why we measure this

Once they have discovered what workers' conditions are like through their workplace assessments, companies need then to agree with their suppliers what improvements are necessary, and when they should be made. They should check their progress and where necessary, give them support and advice along the way.

What good practice looks like

Companies have effective management systems for keeping track of and following up on their suppliers' plans to improve workers' conditions. They do not cease trading when shortcomings are found unless they are of a very serious nature and the supplier is unwilling to improve. They aim to support suppliers to improve over time.

Overall trends

There is evidence that the spread of actions to improve workers' conditions is becoming more broad-based across the clauses of the ETI Base Code.

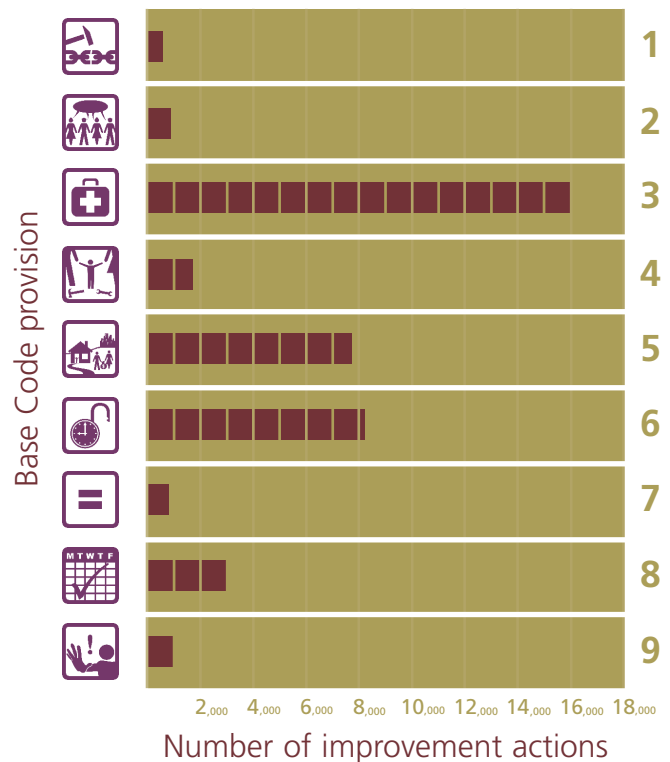
Key performance indicators 2006-7

- Improvements to workers' conditions**
 Member companies recorded 39,282 separate agreed actions to improve workers' conditions. The following graph demonstrates that the vast majority of actions identified were in health and safety, followed by wages and working hours. Violations of these principles are often common in many countries and industries, and are relatively straightforward to detect and improve.
- Registered improvements to workers' conditions**
 As well as agreeing what actions are required to improve their labour practices, companies should also follow up with their suppliers to check that the actions identified have been completed. Members reported that suppliers had fully resolved a total of 9,172 issues, over half of which related to health and safety.
- Support to suppliers to implement corrective actions**
 58% of member companies provided support and guidance in various forms to suppliers to help them improve their workers' conditions.

Room for improvement

Next year we would like to see a broader spread of improvement actions across the ETI Base Code, with proportionately more actions on living wages, discrimination and freedom of association, where we know there are widespread problems. We would also like to see more of our members sharing plans to improve conditions with trade union or worker representatives. Below are the actions for 2006-7:

Agreed improvement actions across the ETI Base Code



- Key** 1 Forced labour - 2 Freedom of association - 3 Health and safety
 4 Child labour - 5 Living wages - 6 Working hours - 7 Discrimination
 8 Regular employment - 9 Harsh/inhumane treatment

Case study: Zara's global partnership with ITGLWF



This year Zara's owners Inditex and ITGLWF signed an 'international framework agreement' which commits them to co-operate on tackling workers' rights in Inditex's supply chain. This agreement is the first of its kind between a multinational company and a union to cover garment workers in the supply chain. So far they have worked together to revise the company's code of conduct, started to revamp Inditex's audit methodology and developed new training material for auditors. Critically, the new agreement has already directly benefited workers in three of Inditex's supplier factories, by enabling a swift and effective response to major violations of trade union rights in those factories.

Inditex staff are convinced that their new partnership with ITGLWF will be the most effective way of solving workers' problems, and one ethical trade manager credits the company's ETI membership alongside ITGLWF as being **"crucial to helping us develop the confidence and trust we needed to embark on this journey"**.

Future plans include looking at the impact of Inditex' buying practices on the ability of its suppliers to comply with its code of conduct, and increasing the transparency of the

Principle 5: Integrate ethical trade into business decisions

Why we measure this

Integrating ethical trade into business decisions is perhaps the greatest challenge for all companies. Company purchasing practices – for example, lead times and prices negotiated with suppliers – can play a major role in either improving or constraining a supplier's ability to provide decent conditions for workers.

Overall trends

Relatively weak performance against this principle reflects the major challenge all companies face in marrying commercial practices with ethical principles. However, several members are making efforts to raise the awareness of buying staff of the potential impact of their decisions on workers.

What good practice looks like

Company buyers are rewarded for ethical as well as commercial performance. Compliance requirements are built into contracts. Suppliers are offered incentives for good labour practices, such as long-term business relationships.

Key performance indicators 2006-7

- **Length of relationship with supplier**

The longer the business relationship, the easier it is for suppliers to plan ahead, and the more reason it gives for both retailers and suppliers to invest in improving workers' conditions:

- 45% of members' relationships with suppliers last for more than five years
- 20% last for between one and three years
- 19% are between three and five years
- 16% last for less than one year.

- **Compliance built into supplier contracts**

Adding ethical criteria to contracts signals to suppliers that they are as important as quality and cost requirements. 53% of our members have compliance requirements built into their contracts with suppliers.

- **Rewarding staff on ethical trade criteria**

44% of member companies include ethical trade criteria in the assessment of staff in technical and buying teams, although financial reward is only given in a few cases.

- **Transparency of critical path**

Poor critical path management in buying companies increases uncertainty for suppliers, and delays in key decisions often mean that suppliers have to complete orders to unrealistic deadlines. For workers, this can mean cancelled leave and excessive overtime as suppliers rush to meet shipment dates.

Members provided a narrative response to this question, demonstrating a higher number and quality of responses than last year, with several members suggesting increased awareness of the importance of lead time management and timely sign-off.

Room for improvement

Although members are doing much more to explain ethical trade policies to buying staff and are investigating how to improve the efficiency and transparency of their decision making, we need to see all retailers looking seriously at the impact of purchasing decisions on workers' rights.

Case study: How Gap Inc. is improving production planning



As part of ETI's Purchasing Practices Project, Gap Inc. has been working with Women Working Worldwide (WWW) in a groundbreaking project to map the critical decision points in production planning at both field and headquarters level. After an initial investigation phase, WWW will work with Gap Inc. staff in the UK to develop training modules for designers and merchandisers that encourage them to think about the impact of their decisions on workers, and what they could do differently. Jennifer Hurley of WWW says of her experience so far: **"Working with the Gap team has given us greater insight into the complexities of the business environment. This doesn't mean we have diluted our goals but rather that we've developed a different way of working. This collaborative approach is no magic wand, but it does open up a new space for us to pursue workers' rights."**

To find out more about ETI's purchasing practices project, go to: www.ethicaltrade.org/d/purchasingpractices



The ETI Training Programme – building skills in ethical trade



This year, through our ongoing partnership with the Co-operative College, we trained over 130 company managers and trade union and NGO staff in the basic principles of ethical trade, how to develop an ethical trade strategy, engage with other organisations and achieve sustainable change to workers' conditions. Training is open to members and non-members alike and covers:

- an introduction to ethical trade and ETI
- developing and implementing an ethical trading policy
- managing change in the supply chain
- interfacing with internal and external stakeholders

Find out more about one-day courses and in-house training opportunities at:
www.ethicaltrade.org/d/training

CHAIR'S MESSAGE

| The measure of success

This year we have asked ourselves searching questions about how far our approach to ethical trade measures up to the challenge of improving working conditions and respect for rights in global supply chains. In late 2006, we published a 'warts and all' account of the impact of labour codes, which made a major contribution to our understanding (see p7). We now have solid evidence that companies sourcing ethically can motivate suppliers to make sustainable improvements in labour practices. The study showed that credible and effective ethical sourcing means:

- integrating the needs of workers into companies' core business decisions. ETI members are among the industry leaders in improving the efficiency of production planning and in training buyers. Much more action is needed by many more companies however;
- working in alliance with a large number of suppliers, trade unions and NGOs to tackle the root causes of workers' rights abuses. I am immensely encouraged to see members taking a 'whole industry approach' to promoting labour rights in India, Bangladesh, China, Colombia and the UK;
- building the skills and changing the attitudes of the many staff and suppliers who must play their part in implementing codes. It is heartening to see so much investment in training and awareness-raising activities by members over the past 12 months.

We have invested heavily in sharing the lessons we learned from this exercise, distributing over 20,000 copies of IDS' impact assessment report and presenting its findings to companies, governments, trade unions, and many other organisations which promote workers' rights.

As we approach our tenth anniversary year, we have set ourselves some clear priorities. We must:

- help sourcing companies to become more robust at tackling the issue of freedom of association so that workers are better able to represent themselves and bargain with their employers for improved conditions;
- find a sustainable way to ensure workers receive a living wage where minimum wage rates hold workers in poverty. This demands that sourcing companies ensure that their core business practices do not undermine their suppliers' ability to provide decent wages and employment conditions;
- improve the credibility and consistency of audit practices;
- find clearer ways to communicate the successes of ethical trade and the achievements of industry leaders.

These are the challenges that ETI and our members must measure up to in the years ahead. With our growing strength and commitment I am confident we can do so.

I invite you to join us.



Alan Roberts
ETI Chair

ETHICAL TRADING INITIATIVE

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Vice-chair

Lord Young of Norwood Green

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Javier Chercoles Blazquez
Inditex

Robert Brown
Boots

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Neil Kearney
International Textile, Garment and Leather
Workers' Federation (ITGLWF)

Simon Steyne
Trades Union Congress (TUC)

Teresa MacKay
International Union of Food Workers (IUF)

DFID Observer

Jillian Popkins

FINANCES*

2006-7

The full financial statements are available on request from the ETI Secretariat or from our website www.ethicaltrade.org/d/AR2007

* as at September 2007

SECRETARIAT *

Director

Dan Rees

Deputy Director

Niaz Alam

Head of Projects

Liz Kirk

Project Managers

Candida Barbato

Miriam Neale

Olivia Robinson

Helen Shamdasani

ETI China Representative

Dimitri Kessler

Head of Communications

Man-Kwun Chan

**Media Relations and
Communications Manager**

Julia Hawkins

Communications and Events Co-ordinator

Adil Rehman

Office Manager

Carol Sheldon

Administrative Assistants

Kaiesha Gibson

Dean Jones

Membership Co-ordinators

Annie Watson (Trade union members)

Peter Williams (NGO members)

Income

£1,209,959

Our thanks go to DFID for its continuing support.



Expenditure

£1,175,611



“Whether wages cover basic needs depends on the size of the family. I have three children and my husband works as well and it’s ok. For single mothers it would be difficult.”

Packhouse worker

“Daily survival”

Contract worker

“Previously if someone was seen talking to a union member they were practically fired on the spot. Now there’s less pressure.”

Trade union member

“When buyers come for inspections.. we are made to exit from the back gate of the unit and not paid on these days.”

Contract worker



IN THEIR OWN WORDS...

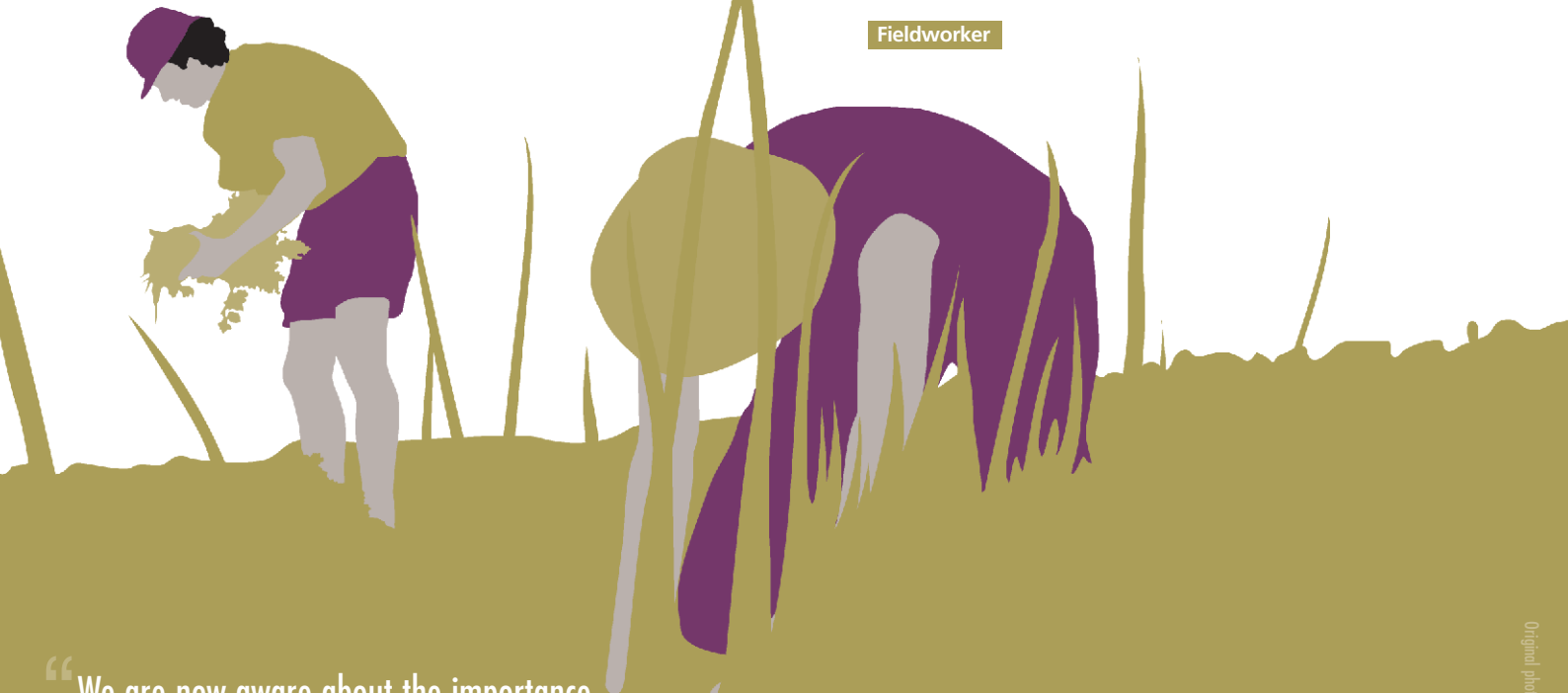
... is a challenge with spiralling costs of living.”

“As there is less overtime we have time for going out at the weekend. If the family’s income is okay, there’s no need for overtime.”

Footwear workers

“I started working on the farms when I was 16. I wanted to work because I’m from a poor family and there was a war on.”

Fieldworker



“We are now aware about the importance of proper lighting which earlier we never bothered about. We also take care of quality issues so that we do not get products back for alterations.”

Homeworker

Original photography : © Vincenza D'Allo/GlobeWire



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natural**ly**responsible*

“**To my brother,**
Study hard so that you can work
in an office and do not need to
suffer at work in order to make
money for your family. You will
never have a tough life.”

A letter from a former child worker, reproduced with permission from Impactt Ltd., which facilitated a child labour remediation programme in China involving ETI members (see p16).

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