Codes•memo

Maquila Solidarity Network

Number 17, July 2004

SPECIAL ISSUE ON LABOUR STANDARDS REPORTING

In this issue of the Codes Memo, we focus on recent developments and trends in company Corporate Social Responsibility (CSR) reports, with an emphasis on labour standards compliance reporting. We also profile some new resources on CSR reporting and relevant issues that need to be addressed in those reports.

In this issue:

A. Gap CSR report raises transparency bar

In May, US specialty retailer Gap Inc. released its first Social Responsibility Report, profiling the company's corporate social responsibility (CSR) activities in 2003. The report received generally positive reviews from the media, as well as from long-time critics of the company's management of labour practices in its far-flung global supply chain, including the Maquila Solidarity Network (MSN).

Media coverage of the Gap report tended to focus on the fact that a major US brand was admitting that worker rights violations were a common problem in many of its supplier factories around the world. Less attention was given to initiatives described in the report, in which Gap is attempting to address some of those problems.

Despite the media's focus on problems rather than possible solutions, a number of spokespeople for non-governmental organizations, labour, ethical investment and anti-sweatshop organizations gave Gap credit for the candor and transparency of its report and expressed the hope that it would serve as a base line for other companies.

Stephen Coats of the US/Labor Education in the Americas Project calls the Gap's CSR report "a milestone and a great advance from the days when clothing retailers tried to dodge their responsibility for working conditions." According to Coats, the report raises the bar for the whole apparel industry. "Now this advance in principle has to be accompanied by advances on the ground - and accompanied by other retailers," says Coats.

"Unlike many CSR reports that only provide anecdotal information on good community projects, this report gives an accurate picture of the problems, issues and challenges faced by a major brand using over 3,000 supply factories around the world," says David Schilling of the US Interfaith Center for Corporate Responsibility (ICCR).

According to Dan Henkle, Vice President of Global Compliance for Gap Inc., while some of the initial media stories focused on sensational issues profiled in the report, after NGO and labour groups had the chance to digest the report and comment favourably on it, the coverage changed and became much more positive.

Why a "Codes Update" memo?

This periodic memo is sent in Spanish to groups in Latin America in an effort to share information on developments and resources circulating in English about codes of conduct and monitoring. We also share the English version of the memo with our network. Comments, criticisms and suggestions are always welcome: info@maquilasolidarity.org.

"If we hadn't included stakeholders in reviewing and commenting on the report prior to its release, we would have had a very different response," says Henkle. According to Henkle, one important lesson Gap learned from the exercise was the need for even broader engagement with stakeholders and more time for dialogue on what they want to see in a CSR report.

What's in the Report?

The Gap Social Responsibility Report includes the following supply chain information:

- Number of supplier factories by geographic region, facilities evaluated, approved and not approved, and number pending;
- Percentage of facilities visited by Gap compliance officers, by region;
- Percentage of violations of specific code provisions, by region; and
- Performance ratings of supplier factories by country, but only in selected countries (El Salvador, Guatemala, Honduras, Lesotho, Cambodia and China).

While acknowledging that the Gap Social Responsibility Report is more candid and transparent than most CSR reports, many labour, social investment, and non-governmental organizations and CSR analysts believe the company could go further in reporting on areas of non-compliance in specific countries and factories, as well as corrective action taken to address those violations.

"Reporting by geographic region makes it hard to compare and evaluate what a company is finding or doing," says Dara O'Rourke, Assistant Professor of Environmental and Labor Policy at the

University of California at Berkeley. "What is needed is a transparent, factory-level analysis that allows comparison of where the problems exist and where they are being successfully remediated. The report is a positive step for the company, but I hope it's just a first step toward much deeper transparency."

"The problems are identified clearly," says Schilling, "but there isn't sufficient information on how Gap is addressing those problems, perhaps because the mechanisms for doing so are not fully developed. There isn't enough information on how and to what degree Gap's code monitoring program is improving the lives of workers on the shop floor."

Interestingly enough, Gap's self-assessment of its performance against its objectives rates "transparency", "supply chain alignment with CSR practices", and "industry collaboration" as "opportunities" rather than "achievements". "Supplier monitoring for compliance with company standards" is given a "significant progress" rating. On its "external engagement with NGOs/stakeholders" and "public policy engagement," the company gives itself a "some progress" rating.

Need for Improvement

Despite the Gap's positive self-assessment for progress on supplier monitoring, the company's CSR report includes a number of admissions concerning weaknesses in that same program. It acknowledges that violations of rights-based issues, such as freedom of association and discrimination, are difficult to uncover and verify, and therefore instances of those violations may be underrepresented in its report. It also admits that "concealment of overtime and unwillingness to share accurate documentation" is a major issue in China.

According to Schilling, to better identify and remediate violations of freedom of association and other rights-based issues, Gap's monitoring process must be supplemented by a bottom-up approach, such as increased involvement of local civil society organizations in carrying out worker interviews and more partnerships with unions on the ground. Gap seems to concur with Schilling. Its CSR report states, "Our ability to discover violations [of freedom of association] increases when we conduct in-depth interviews with workers and engage unions and other organizations that have reliable sources in a factory."

However, improved monitoring will not address the most difficult question facing Gap and other companies with an increasing percentage of their production in China - how to encourage respect for freedom of association in a country where that right is severely restricted by law.

According to O'Rourke, the lack of information on how Gap interprets or addresses freedom of association in China weakens the credibility of the report. Referring to the "Code Violations" chart in the report, O'Rourke asks, "What does it mean when there are no instances of freedom of association violations reported in Gap's hundreds of Chinese supply factories?"

According to Henkle, Gap monitors to the provisions of its Code of Vendor Conduct, which states, "Workers are free to choose whether or not to lawfully organize and join associations." Since workers do not have the legal right to form or join unions of their choice in China, violations of freedom of association do not appear in Gap monitoring reports.

Henkle admits that the Gap report might give the mistaken impression that there are fewer problems with freedom of association in China than in countries where workers have the legal right to organize and bargain collectively. He says Gap is committed to working in collaboration with other companies, as well as multi-stakeholder initiatives, such as the Ethical Trading Initiative (ETI), to explore possible mechanisms for worker representation in China.

Looking for Solutions

In addition to the candid admissions of worker rights violations in the company's supply chain and weaknesses in its monitoring program, the Gap report also highlights a number of initiatives in which Gap is attempting to achieve and maintain improvements in working conditions and labour practices.

Two specific initiatives that go beyond the usual check-list approach to factory monitoring are Gap's collaboration with local non-profit independent monitoring organizations in Central America and Kenya, and the facilitation of labour rights training for management personnel and workers in Cambodia.

In Central America, Gap is currently working with four independent monitoring organizations (GMIES in El Salvador, COVERCO in Guatemala, EMIH in Honduras, and PASE in Nicaragua). Unlike the commercial auditing model, in which for-profit auditing firms carry out one- or two-day factory visits, the Central American monitoring groups believe longer-term access to the workplace is needed to gain the workers' trust and uncover code and legal violations. They also insist on the right to publish full monitoring reports, without naming the factories involved.

According to Gap's CSR report, the company is now integrating the local monitoring groups in Nicaragua and Kenya into the evaluation process for the approval of new supply factories, with the Gap compliance team assessing health and safety practices and the independent monitoring groups carrying out worker interviews.

In Cambodia, Gap is supporting the work of the Cambodian Labour Training Coalition, which is providing labour rights training for management personnel and workers in four Gap supply factories in that country. The coalition includes the Cambodian Labour Organization, the NGO Khemara, and the Cambodian Human Rights Taskforce.

The report also profiles a pilot project in Lesotho. The goal is to provide training and capacity building to government and industry association personnel and selected supply factories on labour rights as a necessary element in a national strategy to remain competitive in the post-quota global market.

According to Henkle, Gap is learning from their experience working with local non-governmental organizations in Central America, Kenya, Cambodia and elsewhere on how to improve its monitoring program worldwide. He also points to two new initiatives that the company hopes will improve compliance staff's ability to monitor compliance with freedom of association and other provisions of its code - a training needs assessment to be carried out by Verité with Gap's field monitoring team and a review by Social Accountability International (SAI) of its compliance program.

No Longer Going It Alone

In previous issues of the Codes Memo, we pointed to Gap as a company that had decided to go it alone in the implementation of its code of conduct, rather than participating in one or more of the multi-stakeholder initiatives. As well, with the exception of the factory monitoring carried out by the NGOs in Central America and Kenya, to date all monitoring has been carried out by Gap compliance officers.

In 2004 however, the company made a major change in its approach, joining the UK-based Ethical Trading Initiative (ETI) and becoming involved in the US-based Social Accountability International as a "SA8000 Explorer." (SAI's "Explorer" designation means a company has access to technical assistance in assessing its supply chain and code compliance program, as well as SAI training program. It does not commit that company to the SA8000 Standard or to using only SA8000-certified factories.)

While Gap's decision to become involved in these multi-stakeholder initiatives could indicate a greater commitment to collaborating and sharing experiences with other companies and engaging with NGO and labour organizations in a more systematic manner, it does not formally commit the company to additional auditing or reporting requirements.

Including Stakeholder Voices

The inclusion of stakeholder voices in the Gap report, including those of historical critics of the company, indicates that Gap has come a long way in learning how to effectively engage with labour and non-governmental organizations. According to Schilling, Gap's willingness to engage with stakeholders that many companies view as outsiders—social investment organizations, NGOs, unions, anti-sweatshop groups—has been worth the risk.

In addition to positive statements on the progress Gap has made in addressing labour rights issues, the "Stakeholder Feedback" section of the report also includes critical comments and challenges from campaign organizations and unions such as the Clean Clothes Campaign, the US/Labor Education in the Americas Project, Women Working Worldwide, UNITE, and MSN. These include:

- Improve enforcement of freedom of association provisions of the Gap code;
- Provide incentives to encourage supplier compliance with and government enforcement of labour standards; and
- Evaluate production timelines and prices paid to suppliers to help reduce the need for overtime and make it possible for suppliers to comply with the code.

The report also includes a statement from five social investment organizations that participate in the company's Public Reporting Working Group. The group's statement praises the Gap report as "a strong first step toward establishing Gap Inc. as a leader in public reporting..." but also calls on the company to "provide the public with factory specific data to permit stakeholders to better understand the complexities of compliance and to measure Gap Inc.'s performance over time."

While some will no doubt view the inclusion of critical voices in the Gap report as nothing more than a clever and effective public relations and/or cooptation exercise, this very public form of engagement also raises expectations among stakeholders, shareholders and customers that Gap will begin to seriously address the underlying problems in the industry, both in its future reports and in the actions it takes over the coming year.

One of the four goals the Gap report poses for 2004 is identifying supply chain practices that may impact working conditions in supply factories. O'Rourke hopes this indicates that the company will now move from monitoring work-place violations to a root causes analysis of the reasons those problems continue to exist. Three key questions O'Rourke would like to see Gap address are:

- How does supply chain management interact with CSR?
- What are the incentives the company is offering suppliers to achieve and maintain compliance?
- How is CSR part of the company's decision-making process in determining which factories and countries they are sourcing from?

Henkle agrees that Gap Inc. needs to make more explicit the positive incentives it offers suppliers for labour standards compliance. He also believes there is a link between pressures from buyers to meet unrealistic order deadlines and problems with quality and productivity. According to Henkle, Gap Inc. is looking at labour standards compliance as "one factor, though not the only factor," in decision-making on sourcing after the quota phase-out in 2005. He notes that Cambodia, where the ILO has been mandated under the US-Cambodia Textile Agreement to monitor labour practices in the country's garment industry, has positioned itself as a country that is promoting labour standards compliance as part of its post-quota apparel industry survival strategy. "It's not surprising to me that Cambodia's garment factories have been rated more favourably in audits," says Henkle.

The Gap 2003 Social Responsibility Report is available in English at: www.gapinc.com.

B. Adidas: staying focused

In March, the German sportswear company adidas-Salomon released its fourth annual CSR report, entitled "Staying Focused: Social and Environmental Report 2003." The adidas report received much less media or public attention than did the Gap report, possibly because it broke little new ground over the company's previous three reports.

Assessing the adidas Report

According to Thomas Krämer of the German Christian Initiative Romero (CIR), the publication of adidas' first CSR report in 2000 was an important step forward for the company. However, Krämer is disappointed that the company hasn't made advances since then toward greater transparency in reporting. "The report is very general; there are no details provided on auditors' findings at the factory level," says Krämer.

According to Krämer, while the Gap report offers more information on its findings at the regional level than does the adidas report, neither report provides sufficient factory-level information to measure the progress of companies on labour standards issues. "Without concrete information we can't compare a company's findings with the findings from our own research," says Krämer. "Companies expect us to give them all the information from our research, but they are still unwilling to share their findings. We are expected to trust in their good will."

What's in the adidas Report?

Adidas-Salomon's 2003 CSR report includes the following supply chain information:

- Number of factories audited by the company by country, including subcontract facilities;
- Number of factories not yet audited, removed from supply list, and rejected after pre-approval audit by geographic region;
- Number of business relationships terminated due to code ("standards of engagement") violations by country and reasons for those terminations; and
- Five-star rating of supply factories by geographic region.

While the report does identify code violations for suppliers where the business relationship has been terminated, it does not provide specific information on audit findings or corrective action taken in facilities it continued to use in 2003, whether by workplace, country or geographic region. In contrast, adidas' 2000 report included a chart identifying common problems in its supply factories by country.

According to Gregg Nebel, adidas-Salomon's Social and Environmental Affairs (SEA) officer for the Americas region, his company is not averse to including more information in its CSR reports on common noncompliance issues in particular countries, but consultation with stakeholders indicated that inclusion of case studies was a higher priority.

Beyond Check-List Auditing

Like the Gap report, adidas' 2003 CSR report includes a critique of the limitations of the check-list, policing model of social auditing. "Our strategy is based on a vision of long-term self-governance and our goal is sustainable compliance," says the report. "Consistent with this approach, the SEA team is progressively moving away from its traditional role of being an inspectorate policing a code, to one of providing support and advice to suppliers."

This shift in focus from "monitoring issues" toward "promotion of management systems and compliance strategies" of suppliers is intended to achieve supplier self-governance and sustainable compliance, which many leading companies agree has not been achieved through the policing approach.

One of the positive outcomes of the new focus of adidas and many other brand-name companies on "partnerships" with suppliers to achieve "sustainable compliance" is the increasing emphasis on supplier training on labour standards compliance, "environmental best practice," and "worker-management communications." According to the adidas report, the company facilitated over 200 such training sessions in 2003."We still audit our suppliers," says the adidas report, "but instead of highlighting non-compliance, we focus on addressing the reasons for non-compliance." Whether this shift in focus will result in improved labour practices over the long term, or instead lessen the pressure on suppliers to address immediate instances of code violations, is yet to be seen.

Krämer believes adidas' focus on training is a positive development, but that it isn't sufficient to achieve and maintain compliance. "What is needed is a combination of increased pressure on suppliers on areas of non-compliance and financial and other incentives for suppliers that make serious efforts toward compliance," says Krämer. According to Krämer, incentives could include financial support to improve working conditions and longer-term commitments to suppliers with good labour practices.

Wages, Hours and Freedom of Association

The adidas report profiles two studies carried out by the company in 2003, the Fair Wage Study and the Hours of Work project.

While the Fair Wage Study did not result in adidas requiring payment of a living wage that meets basic needs by local standards, it did prompt the company to develop a strategy for improved wages and benefits. In addition to promoting rewards for productivity gains and making less specific commitments, such as having suppliers take into account data on the cost of living and workers' needs and benchmark basic pay "at a level that is higher than the local minimum wage," adidas also promises that by 2006 its suppliers will adopt transparent mechanisms for establishing wages that include "direct input from workers - i.e. ideally through negotiation or collective bargaining."

Lean Manufacturing is a production strategy designed to achieve the shortest possible cycle times for manufacturing. Lean is derived from the Toyota Production System, which is famous for eliminating waste and reducing incidental work through modular production and just-in-time delivery of materials and parts. The system seeks to decrease the time between a customer order and shipment by reorienting production from the traditional "progressive bundle system" -- in which for instance a worker sews the same part of a sleeve all day long building up a bundle of sleeves that then get passed on to the next worker who sews on buttons the next day, etc. -- to a single-piece flow production where the entire shirt flows through the line from start to finish in the shortest possible time. The production process is organized under a modular system in which multi-skilled workers who can perform different operations work in teams that are given group incentives for reaching production targets, rather than piece rates and production quotas for individual workers.

Based on surveys and a review of working hour data from Asian factory audits, adidas' Working Hours Taskforce recommended that the company revise how it calculates suppliers' production capacity and how it plans the placement of orders.

According to Nebel, the review revealed two key issues that contributed to problems with working hours - a lack of understanding of a factory's capacity when orders were being placed and unanticipated demands for orders, both from adidas and other buyers using the same factory. Nebel believes his company's move to lean manufacturing and to using fewer suppliers in longer-term relationships will result in improved reporting and planning and better control of working hours.

Adidas' 2003 CSR report also profiles adidas-sponsored training workshops on freedom of association in Indonesia and El Salvador. In Indonesia, adidas worked with the ILO on training workshops for management personnel and leaders of "multiple unions" in one supply factory to "establish the rules for collective bargaining negotiations." According to the report, the training sessions also explored "other communication and problem-solving mechanisms..., including the LMC (labour-management committee) concept."

In El Salvador, adidas and Reebok collaborated on a training workshop on freedom of association involving four groups of workers from four factories. The workshop was led by the US non-profit monitoring organization, Verité.

The four factories had been the subjects of Fair Labor Association (FLA) audits in 2002, and, according to the audit reports on the FLA website, workers at two of the four factories had said they were "not free to form a union," and workers at a third factory said that "when workers tried to form a union, they were fired." According to FLA audit reports, remedial action included labour rights training and the establishment of worker-management communications committees. In one factory, such a committee had already been established.

Because of the prevalence of management-created "solidarista" associations in Central America, the creation of the communications committees was seen by CIR and the US National Labor Committee as an attempt by the employers to find a company-controlled alternative to unionization. They charged that the communication and problem-solving mechanisms being promoted by adidas were inhibiting rather than promoting freedom of association.

According to Krämer, in-depth interviews with workers at one of the factories indicated that management selected the worker representatives to the worker-management committee, and the workers interviewed did not believe the committee was contributing to greater respect for their rights.

According to Nebel, the purpose of worker-management communications committees is not to negotiate wages and working conditions, but to "change the culture of the workplace and encourage dialogue between workers and management." While acknowledging that worker representatives were selected by management in one of the four factories, he says that problem has since been resolved and worker representatives are now elected. Nebel also points to "synergies between lean manufacturing and the worker-management committees," noting that in factories that have moved to lean manufacturing, employees are encouraged to make suggestions for improvements in the production process.

Adidas-Salomon's efforts to integrate labour and environmental "Standards of Engagement" (SOE) with lean manufacturing is a major theme in its 2003 CSR report. According to the report, the company's Continuous Improvement (CI) team and SOE teams are collaborating on joint audits of supply factories in Mexico, Brazil and Central America. An ergonomics assessment was also carried out in two supply factories in Indonesia. According to Nebel, the impact of lean manufacturing on stress, fatigue, ergonomics and working hours are key issues the company is looking at.

According to O'Rourke, who is currently carrying out a study of health and safety issues and lean manufacturing in an adidas supply factory in El Salvador, many firms are significantly restructuring their supply chains and their relations with their contractors in light of the phase-out of the MFA, and many of these firms are also experimenting with new manufacturing systems such as 'lean production.' "We are studying what these changes in the organization of factories really means for workers concerning overtime, wages, health and safety, and worker representation," says O'Rourke

As adidas and other major brands consolidate their global supply chains and promote the shift to lean manufacturing with many of the long-term "partners" that remain, we will likely see increasing debate over whether new worker-management communications mechanisms introduced as part of this model will encourage or inhibit authentic worker representation.

Engagement with Stakeholders

Like Gap's report, adidas' 2003 CSR report also puts a great deal of emphasis on engagement with stakeholders. According to the report, adidas' "relationships with some of our more vocal critics have matured and new levels of understanding and cooperation have been achieved through closer engagement with non-governmental organizations."

Examples profiled in the report include:

- A roundtable discussion in southern China on freedom of association, facilitated by a Hong Kong-based NGO and involving compliance staff of major sportswear brands, which resulted in agreement on joint actions "to improve management-worker communications and worker representation in China;"
- Cooperation with the Worker Rights Consortium (WRC) "to address labour issues and improve workplace conditions at the PT Dada factory in Indonesia;
- Providing financial support to CARE for training with Chinese supervisors in Cambodian apparel factories; and
- Participation in multi-stakeholder forums on CSR and dialogue with socially responsible investment funds.

While agreeing that adidas has been involved in a number of meetings and consultations with various stakeholders, Krämer questions the company's commitment to serious collaboration with civil society organizations. He notes that, to date, adidas has been unwilling to collaborate with the German Clean Clothes Campaign (CCC) on a pilot monitoring project or to work seriously with one or more of the Central American independent monitoring groups. "So far, they are not willing to explore the possible involvement of local civil society organizations in the monitoring process," says Krämer.

According to Nebel, his company does not have a problem with Central American organizations doing external monitoring of compliance in adidas supply factories, if those organizations are FLA-accredited auditors. He notes that the FLA, not adidas, selects the organizations to carry out such audits and that COVERCO was involved in an audit for an adidas licensee in Guatemala. According to Nebel, his company is currently in discussions with GMIES about the possibility of carrying out some verification work concerning drinking water and follow-up worker interviews concerning the Verité freedom of association training program.

Krämer says he would welcome serious cooperation between adidas and the monitoring groups, but still wonders why there has been so little progress after six years of discussion between adidas and CCC on this issue.

Post-Quota Sourcing Strategy

Another interesting piece of information in the adidas report concerns the changes taking place in the company's global supply chain in anticipation of the quota phase-out in 2005. According to the report, adidas-Salomon is consolidating its garment sourcing to around six "strategic countries" (China, India, Indonesia, Thailand, Turkey and Vietnam), while maintaining smaller operations in Central America, Cambodia and the Philippines. "This strategy not only offers the [adidas-Salomon] Group flexibility and security in the supply of apparel products, but also reinforces our longstanding relationships with key suppliers," says the report.

Asked about a recent controversy in which adidas-Salomon is being accused of abandoning workers at the Dae Joo Leports factory in Indonesia, where workers are represented by a union and have a signed collective agreement, and shifting orders to a factory in China owned by the same company, Nebel says adidas-Salomon is not a direct contractor of the factory and that an indirect licensee has made this decision. Nebel notes that Indonesia is still a strategic country for adidas. "Our goal is not to get on the Conestoga wagon to China," says Nebel.

A key question for adidas, as well as for its competitors, as we approach 2005 is how and to what degree labour standards compliance will inform its decision making on which suppliers it gives preference to in those strategic countries and what responsibility it has to the workers in the countries it leaves behind.

The adidas 2003 Social and Environmental Report is available English at: www.adidas-Salomon.com.

C. Canadian retailers take small steps forward

Whatever weaknesses and limitations we find in the CSR reporting by leading US and European brands, Canadian companies are far behind their US and European competitors. At present, only a few Canadian companies report on their CSR policies, and even fewer report on labour practices in their global supply chains.

A recent study by the Conference Board of Canada found that two-thirds of Canada's top 300 companies do not issue CSR reports. (See "New Resources" below.) In the apparel sector, only two Canadian retailers release annual CSR reports that address labour standards issues in their global supply chains, the Hudson's Bay Company (HBC) and Mountain Equipment Co-op (MEC).

THE HUDSON'S BAY COMPANY

In May 2004, Canada's oldest retailer, the Hudson's Bay Company (HBC), released its second Corporate Social Responsibility report, as part of its annual report to shareholders. The report is also available on the HBC website, as is the company's Code of Vendor Conduct, which unlike the codes of most other Canadian retailers, is fairly closely based on the language of ILO Conventions. The Code covers all the company's private brand products.

What's in the HBC Report?

As in its previous year's report, the HBC report for 2003 includes composite, global data on its progress in achieving compliance with its Vendor Code of Conduct, including:

- Number of vendors that supply private brand merchandise to the HBC;
- Number of supply factories audited in 2003;
- Number and percentage of factories found to be in non-compliance with its code of conduct in the initial audit;
- Number and percentage of factories that were compliant after corrective action (including those found to be in compliance in the first audit); and
- Number and percentage of factories unable or unwilling to meet the provisions of the Code.

The report also includes basic information on HBC's compliance program and identifies the third-party auditing organizations (Cal Safety Compliance Company and International Global Compliance Services) used by HBC to audit it supply factories.

Need for Improvement

The HBC report does not provide information on areas of noncompliance with its code of conduct or corrective action taken, by factory, country or geographic region. Nor does it identify the countries where its apparel and other private brand products are made, the number of supply factories audited by country, or the exact number of supply factories it uses at the global level, though it does list the number of vendors and indicates in a footnote that on average vendors have three or four factories.

According to the 2003 report, while 98% of the HBC's supply factories were found to be non-compliant in the first factory audit, 88% were compliant after corrective action, and 12% were unwilling or unable to meet the provisions of the HBC Code. By comparison, the HBC's 2002 report indicates that 89% of the company's supply factories were non-compliant in the first audit, and 85% were compliant after corrective action. Given the lack of detailed information in the HBC report, it is impossible to assess whether these global statistics accurately reflect actual improvements in working conditions and labour practices.

Cooperation with Other Companies

In addition to the above information, the HBC 2003 CSR report also profiles the company's involvement in the UN Global Compact and Canadian Retailers Advancing Responsible Trade (CRART), an industry initiative led by the Retail Council of Canada. According to the report, the HBC "has been instrumental in bridging the efforts" of the US National Retail Federation (NRF), Retail

Council of Canada (RCC), Foreign Trade Association (FTA) in Brussels, International Association of Department Stores (IADS), and Global Compact.

The HBC is also promoting the development of a central database for the sharing of social compliance audit information among retailers on a confidential basis. While such a database would help avoid costly duplication and provide retailers useful information on prospective suppliers, it does not address growing concern among social investment organizations, labour, and non-governmental organizations, as well as a number of leading brands and retailers, about the quality of audits being carried out by commercial auditing firms.

And, while such a database could potentially be used to provide consumers, shareholders and stakeholders increased information on audit findings and progress in achieving labour standards compliance, this is not the intent of the initiative.

The HBC's CSR report also notes that the company's compliance team developed and distributed a "vendor starter kit" containing information for suppliers on how to become compliant with the HBC Code.

Engagement with Stakeholders

While the Hudson's Bay Company has been more active on CSR issues than most other Canadian retailers, to date, it has shown much more willingness to engage with other companies and industry associations than with labour or civil society organizations in the North or South. Nor has it been willing to explore other methods of achieving and maintaining labour standards compliance, beyond the commercial auditing model.

The HBC 2003 CSR report is part of the company's annual report to shareholders, which is available in English at: www.hbc.com/hbc/

MOUNTAIN EQUIPMENT CO-OP

Although it is a small player in Canada's retail sector, Vancouver-based consumer co-operative Mountain Equipment Co-op (MEC) has gone further than any other Canadian retailer in providing transparent reports to its co-op members and the public on its Supply Team Evaluation Process (STEP) factory audit results.

In 2004, MEC released its second STEP report, covering its activities and findings in 2003. According to the report, audits of eight potential suppliers (seven by MEC compliance staff and one by a third-party auditing organization) were conducted in four countries. Due to budget constraints, no remediation visits were made to current supply factories that had been audited the previous year, says the report.

What's in the Report?

The following information is provided in the MEC STEP Report:

- Number of supply factories used and percentage of total production by country;
- Number of factory audits carried out by country;
- Issues for remediation and status of remediation, by factory and country, but without naming the factory;
- Three-star ratings of each factory for "minor", "moderate", and "major" deficiencies.

Health and safety problems and inadequate factory records are the two most common issues identified in the factory audits, followed by the failure to provide employees with employment contracts or information on their rights. In one factory, problems with hours of work and payment of overtime premiums were also highlighted.

Need for Improvement

The report does not provide information on what MEC defines as minor, moderate and major deficiencies. As well, the third-party auditing organization used in the audit of one factory in 2003 is not named in the report, though MEC's Social and Environmental Responsibility Manager, Denise Taschereau, confirms that the US non-profit monitoring organization, Verité, has carried out all the company's third-party audits to date. Verité also carried out an assessment of MEC's STEP program in 2001.

Another weakness in the report is that monitoring findings are presented in a confusing manner that makes it difficult to determine what code or legal violations actually took place. For instance, it appears that employees taking work home was an issue at one Canadian factory, though the manner is which the issue is described makes it difficult to determine whether or what code or legal violations were taking place.

According to Taschereau, 2003 was a year in which the Co-op put its document management and reporting systems in place and redefined responsibilities for internal staff responsible for carrying out factory audits. It also consulted with multi-stakeholder initiatives and other companies with more experience in monitoring and reporting.

In 2004, MEC will revisit existing factories for remediation and follow-up and will continue to improve internal systems needed to effectively manage the STEP program, says Taschereau.

Engagement with Stakeholders

Over the past three years, MEC has engaged with the Ethical Trading Action Group (ETAG) and MSN, as well as the Shareholder Association for Research and Education (SHARE), concerning improvements in its code of conduct and monitoring and reporting programs. MEC's revised code of conduct, which does not appear in the STEP report, but is available on the company's website, references relevant ILO Conventions and is closely modeled on those conventions.

The Co-op has also been working with US-based Business for Social Responsibility (BSR) and Canadian Business for Social Responsibility (CBSR), based in Vancouver. In collaboration with CBSR, MEC has also facilitated learning circle meetings among a group of Canadian retailers on CSR issues.

The MEC 2003 CSR report is available in English at: www.mec.ca/step/.

D. FLA accredits Reebok footwear program

In April, the Fair Labor Association (FLA) accredited Reebok's footwear code compliance program as meeting the objectives of the company's monitoring plan submitted to the FLA two years ago. Reebok is the first FLA Participating Company to have part of its monitoring program accredited. In 2005, Reebok's apparel compliance program will also come under review, as will the compliance programs of a number of other FLA participating companies, such as Nike, adidas-Salomon, Phillips-van Heusen, Eddie Bauer, and Liz Claiborne.

According to FLA President and CEO Auret van Heerden, accreditation means that Reebok's system for achieving and sustaining compliance throughout its sports shoe supply chain is set up and running effectively. The term "accredit" was chosen carefully, says van Heerden, in order to avoid confusion with factory certification. The FLA does not certify factories as being in compliance with its code of conduct.

FLA Process

When a company becomes an FLA Participating Company, it submits a two- or three-year implementation plan for its compliance program. After the initial implementation period is completed, the FLA carries out an assessment as to whether and to what degree the company is doing the following:

- Communicating its code of conduct to factory workers and management personnel;
- Training its compliance staff on monitoring and remediation;
- Carrying out internal monitoring;
- Cooperating with unannounced external monitoring visits (by FLA-accredited auditing organizations);
- Remediating noncompliance issues in a timely manner;
- Taking steps to prevent persistent patterns of non-compliance, or instances of serious non-compliance;
- Collecting and managing compliance information effectively; and
- Consulting with NGOs, unions and other local experts.

In an April 29 media release, van Heerden praised Reebok for playing a leading role in facilitating forms of worker representation in China. "We hope to see the experience gained in Reebok's initiatives extended to more factories in China and to other countries as well," said van Heerden.

According to van Heerden, "accreditation doesn't change a company's terms of participation in the FLA," and will be reevaluated every two years.

Asked if brand accreditation might be misinterpreted by the media and the public to mean that all factories producing for an accredited brand were "sweat-free", van Heerden said brands cannot misrepresent what accreditation means on clothing labels or in the advertising and promotion of its products. However, a quick survey of newspaper reports on the FLA's April 29 announcement indicates that many articles did misinterpret accreditation as meaning a "stamp of approval" for Reebok, incorrectly suggesting that all Reebok supply factories were in compliance with the FLA code.

At this stage, there appears to be no formal mechanism for workers or interested third parties to challenge FLA brand accreditations, nor is it clear what details will be publicly available on an accredited company's level of compliance with FLA requirements. However, as van Heerden points out, an FLA-accredited company will continue to be internally and externally monitored, and summaries of external monitoring reports will be available on the FLA website.

E. FLA launches China projects

The Fair Labor Association (FLA) has initiated two projects in China - the Sustainable Compliance Project and the Hours of Work in China Project - to examine the underlying reasons for persistent non-compliance issues.

According to FLA President and CEO Auret van Heerden, "the check-list brand of monitoring only tells you whether or not a factory is in compliance with code provisions, not the underlying reasons for non-compliance. Year after year the same issues reappear and there is not enough real change."

The Sustainable Compliance Project involves a "sustainable compliance assessment" of six footwear factories in China producing for Nike, Reebok, Puma, adidas and Phillips-van Heusen.

According to van Heerden, the assessment will look at every aspect of the employer-employee relationship, including hiring, firing, grievances, discipline, communication, consultation and negotiation. "We are trying to develop a methodology to identify the root causes of persistent violations and effective remedial and preventative action," say van Heerden.

The Hours of Work in China Project will look at the underlying reasons that apparel suppliers in China often try to evade rather than comply with the 60-hour a week limit in the FLA's code of conduct. According to van Heerden, some underlying issues include poor scheduling of orders, poor production planning, poor organization of production, human resources planning problems, and delays in receiving materials.

According to van Heerden, the project will carry out a "root causes" analysis of 6-9 apparel factories producing for approximately six FLA Participating Companies. In addition to looking at internal production issues, the project will also assess supply chain issues, such as timing in placing orders and options for greater advance notice of orders. "One problem is that suppliers don't think they can turn potential customers away, because of uncertainty regarding future orders, and they end up over-committing themselves," says van Heerden.

According to van Heerden, both projects will include capacity building for management personnel and workers. The election of worker representatives for worker-management committees is a key issue, says van Heerden.

F. Solution found at Lands' End

On April 5, the Worker Rights Consortium (WRC) announced that the US apparel merchandiser and university licensee Lands' End had agreed to take a series of remedial steps to address worker rights violations at its Primo supply factory in El Salvador. These include:

- A contribution of cloth, machinery and technical assistance to the Just Garments factory, a new Salvadoran enterprise that offers employment to blacklisted workers and has committed to negotiate a collective agreement with its employees;

- A public statement pledging not to tolerate blacklisting of employees in its Salvadoran supply factories;
- Changes in Primo's hiring process to inform workers of their rights and prevent anti-union discrimination in hiring; and
- Training for managers of supply factories throughout Central America on their obligations concerning freedom of association.

According to the WRC, the agreement was the result of several months of discussion involving Lands' End, Sears Roebuck (which owns Lands' End), the WRC and the Fair Labor Association (FLA). Intervention by US universities involved in the WRC and/or the FLA is also credited with helping to achieve the agreement.

In response to a complaint from the Salvadoran NGO, the Centro de Estudios y Apoyo Laboral (CEAL), in October and November of 2002, the WRC carried out an investigation of alleged violations of freedom of association at the factory. In that same period, the WRC brought the allegations to the attention of the FLA, which includes member universities that also license apparel products made in the factory. On March 19, 2003, the WRC released a public report, stating there was compelling evidence of anti-union discrimination and blacklisting of pro-union workers.

In May 2003, a third-party complaint was also filed with the FLA by "an entity that asked to remain anonymous, which is an option under the Process." The FLA carried out an "independent external monitoring" visit to the factory, which also found a "strong likelihood of non-compliance" of freedom of association and non-discrimination standards.

According to the WRC, "Obviously, it would have been better to have resolved this case far sooner. However, it's also clear that in taking the steps it has agreed to, Lands' End is demonstrating a commitment to a fair resolution for the affected workers, consistent with the company's code of conduct obligations. This is encouraging, not only with respect to the present case, but in terms of the prospects for future compliance by this licensee throughout its supply chain."

G. New resources

The National Corporate Social Responsibility Report: Managing Risks, Leveraging Opportunities, **The Conference Board of Canada, June 2004, 44 pp.**

The report assesses the CSR management practices of a sample of 53 large Canadian companies, including their public reporting practices. It notes that while two-thirds of the companies surveyed issue CSR reports, two-thirds of Canada's top 300 companies do not. It also observes that public CSR reports of Canadian companies tend to focus on process, not outcomes. "Linking practices to performances is the exception rather than the rule."

The Conference Board report includes the following findings:

- While 94% of Canadian companies surveyed have a formal code of conduct or ethics policy, only 49% publicly report on that code or policy;
- While 26% have internal monitoring on "social issues"

- and 26% external audits, only 8% publicly report on internal monitoring and 0% on external audits;
- 21% issue annual CSR reports on social issues;
- 38% report on their commitment to "internationally proclaimed human rights";
- While 58% say they consider human rights impacts on investment or procurement decisions (38% investment, 38% procurement), 0% publicly report on this practice;
- While 36% have a freedom of association policy, 0% publicly report on their freedom of association policy.

The report concludes, "Given the importance stakeholders place on how corporations manage the human rights dimension of their activity, the level of attention paid by some of Canada's largest corporations to this area of performance raises important questions about their exposure to human rights risk."

The Conference Board report is available in English at: www.conferenceboard.ca/GCSR/

***Gradient: Promoting Best-Practice Management of Supply Chain Labour Standards,* AccountAbility and Insight Investment, April 2004, 43 pp.**

The report rates 35 British companies in six sectors on how they manage labour standards in their supply chains, based on the companies' own publicly available reports on these issues. AccountAbility's Gradient Index was used to measure and compare the companies' CSR performance on the basis of five weighted categories: governance and risk management, supply chain labour standards code, management of the policy, stakeholder engagement, and auditing and reporting.

The labour standards used to measure company codes are the eight core labour rights conventions of the International Labour Organization (ILO), plus a living wage standard. Other standards, such as health and safety, hours of work or security of employment are not considered.

Key findings of the study include:

- Thirty-one of the 35 UK companies report on social, environmental and ethical issues;
- Fourteen of the companies do not disclose a supply chain labour standards policy or code of conduct, or have a weak code that does not reference core ILO conventions;
- Twenty-one of the companies have a supply chain code that either references ILO core conventions or includes those standards without referencing the ILO. (However, eight of those codes do not reference all core conventions.) Ten of the companies' codes address the living wage issue.
- Only one company reports that it aligns staff incentives to performance on these issues;
- Twenty-six companies have declared their commitment to auditing programs in their supply chains, though only eight commit to auditing across the full supply chain; and

- Members of the Ethical Trading Initiative (ETI) score relatively well compared to non-members.

While the Gradient provides a useful tool to measure and compare companies' performance on labour practices in their supply chains, the weighting of the different categories assessed for this particular study gives greater importance to internal company systems and auditing and reporting methods than to codes standards or involvement of local stakeholders in code implementation. However, as the report points out, stakeholders can use the Gradient and assign different weighting to the five categories.

And while the focus on companies' public reports may not give an entirely accurate picture of a company's actual performance, this focus on public reporting could have the positive effect of encouraging companies to provide more complete and transparent CSR reports to shareholders, stakeholders, customers and workers.

The Gradient Index is accessible in English at: www.gradient-index.net.

***Eighth Synthesis Report on the Working Conditions Situation in Cambodia's Garment Sector,* ILO Garment Sector Working Conditions Improvement Project, April 2004.**

The eighth synthesis report on the International Labour Organization's (ILO's) factory monitoring program in Cambodia's garment industry provides an assessment of changes in labour practices in 62 of 65 factories that were profiled in the fourth synthesis report. (Two of the factories have since closed, and one was covered in the fifth synthesis report.)

The report includes the following findings:

- Two incidents of gender discrimination, one of which was a minor incident of sexual harassment;
- Four minor incidents of child labour, and two more serious incidents;
- Some improvements in correct payment of wages;
- Some improvements in ensuring overtime is voluntary and that overtime hours are within legal limits;
- Some improvements in ensuring respect for freedom of association; and
- Some improvements in ensuring strikes are organized in conformity with legal procedures.

The factories monitored are named in the report, as are the recommendations for corrective action and whether or not specific factories implemented the recommended corrective action.

The ILO Garment Sector Working Conditions Improvement Project is the result of the US-Cambodia Textile Agreement, which provides improved access to the US market for textile and apparel products made in Cambodia in exchange for industry and government efforts to improve compliance with ILO Core Conventions and national labour law.

Under this unique program, the ILO, in consultation with a Project Advisory Committee made up of representatives of the Cambodia government, manufacturers and trade unions, carries out monitoring of the registered factories and issues periodic public reports on its findings.

The ILO reports are available at: www.ilo.org/public/english/dialogue/ifpdial/publ/cambodia8.htm

THREE NEW OXFAM REPORTS:

Trading Away Our Rights: Women Working in Global Supply Chains, Oxfam International, February 2004, 52 pp.

Turning the Garment Industry Inside Out: Purchasing Practices and Workers' Lives, Oxfam Hong Kong, April 2004, 31 pp.

Stitched Up: How Rich-Country Protectionism in Textiles and Clothing Trade Prevents Poverty Alleviation, Oxfam International, May 2004, 44 pp.

These three Oxfam reports look at systemic problems in the global garment industry. The first report, Trading Away Our Rights, reveals how supply chain pressures from major retailers and brands for faster, more flexible and cheaper production create precarious employment, encourage long working hours, high production quotas and targets, and undermine workers' attempts to organize to improve conditions. The report also looks at similar practices in the food industry.

The report also argues that, under pressure from local and foreign investors and from IMF and World Bank loan conditions, "governments have traded away workers' rights, in law and in practice." According to the report, governments "have too often allowed labour standards to be defined by the demands of supply chain flexibility: easier hiring and firing, more short-term contracts, fewer benefits, and longer periods of overtime."

The second report, Turning the Garment Industry Inside Out, published by Oxfam Hong Kong, documents how current purchasing practices of brands and retailers in their global supply chains impact on workers' lives. It finds that shortened delivery times, suppressed prices, more fashion seasons, and smaller and more unstable orders are resulting in excessive overtime hours, declining wages, failure to pay legal overtime premiums, hazardous working conditions, falsification of factory records, and coaching of workers to provide false information to factory auditors.

The report recommends that companies do the following:

- Make respect for workers' rights integral to the company's vision;
- Integrate that commitment into sourcing and purchasing practices; and
- Promote workers' empowerment to ensure that better sourcing practices result in better conditions for workers.

The Oxfam Hong Kong report also calls on governments to require companies "to report regularly and publicly on their performance with respect to basic labour rights and other standards." It suggests, "Penalties for non-compliance [with mandatory reporting requirements] might include the withdrawal of access to government contracts and assistance."

The third, and most controversial Oxfam report, Stitched Up, looks at anticipated changes in the global garment industry through a North/South lens, rather than from the perspective of garment workers. It argues that while "a number of poor countries will suffer severely from increased global competition as a result of the elimination of quotas in 2005," there are "aggregate benefits for developing countries."

While acknowledging that some poor countries that benefited from the quota system, such as Bangladesh, will likely suffer major losses in investment and jobs in the short term, it sees further trade liberalization coupled with financial and restructuring assistance as the long-term solution for poor countries. It calls on rich countries to reduce tariffs on imported textiles and clothing from the current 12% average to 4% by the end of the decade and on the US and EU to relax their rules of origin for textiles and clothing exports from the poorest and most vulnerable countries. It also advocates increased financial aid and technical assistance "to help these countries get over the shock of sudden job losses and to become more competitive."

In response to growing fears that a significant percentage of investment and orders will shift to China and India after 2005, the paper argues that "even if China and India are the main beneficiaries of quota phase-out, the potential impact on poverty reduction from these countries' gains is still considerable, given that their joint populations constitute more than 2.3 billion people, of whom 563 million live in abject poverty." The paper doesn't address the question of how Chinese garment workers will be able to achieve a living wage if they are denied the right to organize independent unions and to bargain collectively.

Using language surprisingly similar to that employed by Northern retail associations advocating for free trade policies, the paper argues that the quota phase-out and tariff reductions will also benefit people in the North: "Reductions in prices of clothing in industrialized countries, and growing prosperity in developing-country economies, should stimulate demand, giving Northern countries the chance to expand production and employment in other sectors."

To its credit, Oxfam International explicitly rejects the "trickle down discourse" espoused by many free trade advocates, arguing that good labour standards are a contributing factor toward economic development, rather than a natural outcome of it.

The report also includes a series of proposals on labour standards directed primarily at national governments and apparel companies, such as better enforcement of labour legislation, retraining programs and compensation for displaced workers, national multi-stakeholder committees to monitor the impacts of industry restructuring, and the adoption of responsible purchasing practices by brands and retailers.

However, little attention is given to how those policy proposals might be brought into practice, particularly in the new post-2005 context of open borders and intensified global competition. Nor does the paper address the contentious issue of whether or how labour standards might be incorporated in trade agreements.

Trading Away Our Rights *is available in English and Spanish at: www.maketradefair.com*

Stitched Up *is available in English at: www.oxfam.org.uk/what_we_do/issues/key_papers.htm*

Turning the Garment Industry Inside Out *is available in English at: www.maketradefair.org.hk/news/LabourReportEng.pdf.*

***UNRISD Research and Policy Brief 1: Corporate Social Responsibility and Business Regulation,* United Nations Research Institute for Social Development, March 2004, 4 pp.**

This brief Policy Paper offers a critical analysis of the strengths and limitations of voluntary codes of conduct, multi-stakeholder initiatives, public-private partnerships, and emerging international regulatory options.

The paper argues that while multi-stakeholder initiatives (MSIs) "have been somewhat successful in addressing certain weaknesses associated with corporate self-regulations, ... the cost and complexity of many MSI procedures, the sheer scale of the TNC operations and the limited capacities of many of the NGOs or other organizations involved inhibit both quality and scale."

The paper also raises questions about the limitations and possible negative consequences of public-private partnerships, such as the UN Global Compact, noting, "[T]he lack of attention to criteria and procedures for selecting and screening corporate partners, and to monitoring and compliance mechanisms, are downsides to the rapid proliferation of PPPs." It goes on to say, "Partnerships provide opportunities for corporate image enhancement and policy influence through privileged access to developing country governments and multilateral organizations."

Drawing a distinction between CSR and what it calls "the emerging corporate accountability agenda," the paper calls for a re-articulation of voluntary and legal regulatory approaches; strengthening the monitoring and implementation procedures associated with relevant ILO and international human rights norms; promoting complaints procedures; and encouraging not only best-practice learning, but also critical research on the development impacts of corporate activities.

The UNRISD Research and Policy Brief 1 *is available in English at: www.unrisd.org.*