

Revealing Clothing

Transparency Report Card 2006

A survey of labour standards reporting by retailers and brands selling clothes in the Canadian market



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**Ethical Trading
Action Group (ETAG)**
December 2006



The Ethical Trading Action Group (ETAG) is a Canadian coalition of faith, labour, teacher and non-governmental organizations advocating for government policies, voluntary codes of conduct and ethical purchasing policies that promote humane labour practices based on accepted international labour standards. ETAG promotes greater public access to information on where and under what conditions clothes, shoes and other consumer products are made, and greater transparency in monitoring and verification of company compliance with international labour standards and local laws.

ETAG member organizations include: Canadian Autoworkers Union, Canadian Council for International Co-operation, Canadian Labour Congress, Canadian Union of Public Employees, KAIROS: Canadian Ecumenical Justice Initiatives, Maquila Solidarity Network, Ontario Secondary Schools Teachers Federation, Oxfam Canada, Steelworkers Humanity Fund, and UNITE HERE.

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The Maquila Solidarity Network (MSN) acts as the secretariat for ETAG and is the principal author of this report. MSN is a Canadian-based labour rights and solidarity organization committed to decent work and wages for garment workers worldwide. MSN's program combines research, policy advocacy, corporate campaigning and engagement, international networking and solidarity. MSN acts as the Canadian contact point for corporate campaigns and corporate social responsibility (CSR) engagement, monitoring the labour practices of Canadian, US and European retailers, brand merchandisers and apparel manufacturers, engaging with companies whenever possible and mobilizing public pressure for improved policies and practices when necessary. For more information, visit: www.maquilasolidarity.org



AccountAbility

The rating system utilized in this research was initially based on the Gradient Index developed by AccountAbility. AccountAbility is a leading international non-profit institute based in the UK dedicated to promoting accountability for sustainable development by the development of innovative and effective accountability tools. For more information, visit: www.accountability21.net

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Contents

PART I

Introduction	1
2006 Findings.....	3
New Categories	7
Sustainable Compliance.....	7
Worker Involvement	10
The Limits of Reporting	12
Size and Capacity	12
Conclusions	15
Recommendations.....	16
Recommendations to Retailers and Brands	17
Recommendations to Governments	17
Recommendations to Investors	18
Recommendations to Financial Institutions	18
Recommendations to Consumers	18

PART II

Full Description of Research Categories	19
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LIST OF ILLUSTRATIONS

Table 1: General Ratings	3
Table 2: Addressing Sustainable Compliance	8
Table 3: Ratio of Scores to Sales.....	13
Figure 1: Engagement With NGOs and Trade Unions.....	6
Figure 2: General Ratings	back cover

PART III

Individual Company Report Cards

adidas	26
American Eagle Outfitters	28
Boutique Jacob	30
Eddie Bauer	32
Forzani Group	34
Gap Inc.	36
Grafton-Fraser	38
Harry Rosen	40
Hudson's Bay Company	42
H&M	44
International Clothiers	46
La Senza	48
Le Château	50
Levi Strauss & Co	52
Liz Claiborne	54
Lululemon	56
Mark's Work Wearhouse	58
Mountain Equipment Co-op	60
Nike	62
Northern Group	64
Polo Ralph Lauren	66
Reebok	68
Reitmans	70
Roots	72
Sears Canada	74
Tristan and America	76
Wal-Mart	78
Winners (TJX)	80
YM Inc.	82
Zara (Inditex)	84

Appendices

Appendix 1: Methodology	86
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Revealing Clothing

Introduction

Last year the Ethical Trading Action Group (ETAG) published our first Transparency Report Card, *Coming Clean on the Clothes We Wear*. The Report Card assessed and compared 25 apparel retailers and brands selling apparel products in the Canadian market in terms of their efforts to address worker rights issues in their global supply chains and on how and what they report on those efforts. The 2005 Transparency Report Card is available at: www.maquilasolidarity.org/campaigns/reportcard/index.htm

Revealing Clothing is a one-year follow up to our 2005 Report. This year's report card assesses and compares the evolving labour standards initiatives of most of the companies evaluated in 2005, based on public reports of the companies, as well as those of six new companies that were not previously rated. It also amends the survey criteria to address compelling new issues that were not evaluated in last year's report card.

As with last year's report, we have relied exclusively on materials made public by the companies being evaluated.

This Report Card assesses companies on the basis of:

- their programs to achieve compliance with recognized international labour standards in the factories where their products are made; and
- the steps they are taking to communicate thoroughly, effectively and transparently these efforts to the public.

The Report Card does not attempt to evaluate actual labour practices. Because of the lack of publicly available information on factory locations and audit findings, it is

not currently possible to rate companies based on actual workplace practices or to evaluate whether progress has been made over time on labour practices or working conditions at the factory or country level. Nor does the Report Card assess how companies' labour standards policies and compliance programs apply to their retail employees. The focus of this report is exclusively on supply chains.

A central objective of this assessment is to encourage companies to disclose sufficient information to allow consumers and investors to evaluate and compare companies' labour practices and make ethical choices.

We believe that improved public reporting on labour practices within their global supply chains can be an impetus for corporations – and suppliers – to actually improve those practices over time for the following reasons:

- A company that discloses information about the content of its code of conduct subjects itself to public scrutiny about the contents of its code, its methods of monitoring code compliance, and its levels of compliance. This is a healthy dialogue that often leads to incremental improvements over time.
- Public transparency in all matters of corporate conduct, including labour practices, pushes corporations to implement better information gathering processes that ensure relevant information reaches officials with leverage to ensure positive changes in practices – even if only to reduce the risk of “bad” practices being disclosed to the market.

The logo for the Transparency Report Card 2006. It features the words "Transparency Report Card" in a sans-serif font, with "2006" in a larger, bold font below it. The text is overlaid on a background of a textured, light-colored surface that resembles a piece of paper or a card.

Transparency Report Card 2006

- Credible public reporting permits consumers and investors to compare corporate performance, and thus encourages corporations to work to improve performance in order to maintain and improve market share and corporate reputation.
- A company that discloses where its factories are located will take a more active interest in the conditions in those factories because of the increased risk that those conditions will be discovered and reported by third parties in a manner that could negatively affect the company's reputation.
- Public transparency permits civil society actors (unions and non-governmental organizations) in importing and producing countries to monitor corporate claims and performance, which in turn encourages corporations to improve behaviour and to ensure that what they report to the public is accurate.

In the year since our first Report Card was released many of the companies included in our study have expressed increased openness to engagement with groups like ETAG on improving working conditions in their supply chain. Unfortunately most new initiatives and efforts on the part of these companies are still not being reported to their investors, customers and workers.

It is our hope that brands and retailers will not only take steps to address labour rights in their supply chains but will also communicate information on their practices to the public to help engage all stakeholders in the debate around worker rights in this industry.

Revealing Clothing

2006 Findings

Table 1: General Ratings

Company	Governance and risk management	Code for labour standards	Stakeholder engagement	Management	Supply chain auditing and reporting	Total score
Levi Strauss	100	70	79	79	73	78
Reebok	30	70	79	88	85	77
Mountain Equipment Co-op	80	85	72	63	75	74
Adidas	60	70	79	67	79	73
Gap Inc.	70	40	79	67	82	71
Nike	70	45	72	54	82	68
H&M	30	55	79	54	75	64
Eddie Bauer	30	55	79	46	75	63
Liz Clairborne	90	70	64	25	70	62
Zara (Inditex)	50	70	79	8	45	49
HBC	77	55	15	38	61	48
American Eagle Outfitters	58	55	8	58	37	40
Wal-Mart	20	40	21	33	60	40
Mark's Work Wearhouse	60	55	0	13	65	39
Winners (TJX)	30	40	0	46	52	36
Roots	0	70	8	13	37	27
La Senza	0	100	0	13	15	23
Lululemon	27	55	0	0	20	18
Sears	0	55	0	0	0	8
Northern Group	0	40	0	0	0	6
Reitmans	0	40	0	0	0	6
Polo Ralph Lauren	30	0	8	0	0	5
Boutique Jacob	0	0	0	0	0	0
Forzani	0	0	0	0	0	0
Grafton-Fraser	0	0	0	0	0	0
Harry Rosen	0	0	0	0	0	0
International Clothiers	0	0	0	0	0	0
Le Chateau	0	0	0	0	0	0
Tristan & America	0	0	0	0	0	0
YM Inc.	0	0	0	0	0	0

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Table 1 on page 3 compares the overall ratings of apparel companies based on their labour standards reporting. These results are demonstrated graphically on the back cover of this report. Because this study was based exclusively on publicly available information, it is possible that some of the companies surveyed are taking more action on these issues than they are reporting to the public. Detailed company Report Cards can be found in part III of this report.

There have been some improvements in company reporting since we performed a similar assessment in 2005 which will be evident from the individual report cards starting on page 25. For example, the dramatic increase in Mountain Equipment Co-op's (MEC) score brings it close to the top of this year's Report Card. This is a result of new reporting initiatives and engagement undertaken over the past year. MEC could improve its rating still further by undertaking and reporting on engagement and training in supply countries, and by following through on its commitment to disclose factory locations in 2008.

Mark's Work Wearhouse (MWW) also made a significant improvement in its rating since 2005. HBC and Wal-Mart also improved their scores, though not as dramatically as MWW. These advances were the result of new reporting initiatives by each of the three companies, bringing them more in line with reporting standards set by leading companies. In each case, however, there is room for improvement. All three still rate below the 50th percentile in our Report Card. One significant difference between these three companies and the top ranking brands and retailers is the participation by leading brands in multi-stakeholder initiatives with labour and NGO involvement. All of the top ten companies in our Report Card are members of either the Ethical Trading Initiative or the Fair Labor Association.

Among the public companies we assessed, reporting on labour standards compliance efforts appears to be on its way to becoming a business imperative. However, based on ETAG's criteria, none of the companies surveyed is currently providing sufficient, credible and verifiable information to consumers or shareholders to allow informed ethical choices. Among these companies there are still significant differences in the kinds and level of information being provided on company efforts to address labour standards issues in their supply chains.

ETAG's 2005 Report Card highlighted general findings that were confirmed in our 2006 Report Card. They include:

- With some exceptions,¹ public companies tend to report more than private companies;
- While there is convergence among company codes of conduct on core International Labour Organization standards, most codes fail to adhere to international standards on hours of work or provide for a living wage;
- With few exceptions, companies that openly engaged with trade unions, NGOs and multi-stakeholder initiatives received higher overall ratings even when their scores for engagement are eliminated;
- The highest ranking companies are those that have at one time or another been the target of high-profile public campaigns on labour issues by consumers, investors, trade unions and NGOs, suggesting that campaigning results in better reporting; and
- Eight of the companies in this study report some factory-level audit results, but none report comprehensive results from audits at the factory-level.

¹ Commendably, HBC continued its public reporting on social responsibility issues this year despite going private after it was bought by a US investor.

Revealing Clothing

Rather than repeat the general discussion of corporate reporting contained in last year's Transparency Report Card, we have focused this year's report on new initiatives and changes in reporting over the last year. In that sense, this report should be read as a companion piece and update to last year's report, and we refer you to that volume for additional discussion of general results.²

That said, there are some key differences between last year's report and this year's effort.

First, due to the changes in our rating system (see Methodology, Appendix A), some company ratings have changed from last year even where their reporting practices have not. For example, while Gap's reported policies in the area of stakeholder engagement (section 3) have not changed over the last year, their rating in this section has dropped from 100% in last year's report to 79.2% in this year's survey. This is a result of the additional category added to this section (3.3) and the re-weighting of existing categories. That has had an effect on Gap's overall score, although its score has increased slightly in this year's rating.³

On the whole, however, the company's total rating relative to that of other companies has remained relatively stable. Readers should therefore compare a company's ratings to the ratings of other companies and to the specific criteria used in this year's report, rather than to its score in the previous year's report. And, while there is a danger that some readers may make favourable or unfavourable comparisons to last year's ratings, we believe the changes to the rating system more accurately reflect the issues that

must be addressed by companies when reporting to their investors, customers and workers.

We have expanded our report to include a number of additional brands which have been expanding their market presence in Canada: adidas, Eddie Bauer, H&M, Lululemon, Reebok, and Zara. Although adidas now owns the Reebok brand, the two companies were separate for the reporting period being reviewed and are therefore treated separately in this report.

We noted in last year's Report Card that Canadian companies, on the whole, lagged behind their US counterparts. This year the significant improvements from HBC, Mountain Equipment Coop and Mark's Work Warehouse have offset that general trend, but it's still notable that the new European retailers which have moved into the Canadian market are scoring in the top tier of our rating while only one Canadian company is scoring in that range. Some of this is attributable to the prevalence of privately-owned Canadian companies (9 of the 16 Canadian firms in this study are privately-held⁴). However five of the Canadian-owned companies in the bottom half of this ranking were publicly-held and should be expected to report more freely to their shareholders. As the Canadian market reacts to an increasing foreign presence, Canadian companies will need to adapt their transparency standards to be more in line with the measures being taken by US and European brands and retailers.

Another general trend that is reflected to a limited extent in the Report Card is the increased willingness of branded

² For further discussion on general findings, please refer to last year's report at www.maquilasolidarity.org/campaigns/reportcard/index.htm

³ Gap Inc. has not issued a new social or environmental report since our last Transparency Report Card, therefore any major changes to their practices over the last year – either positive or negative – will not be picked up by this study of public reporting.

⁴ Shortly before this went to press, US-based The Limited Brands announced a take-over of La Senza, although for the purposes of this report La Senza is counted as a Canadian brand.

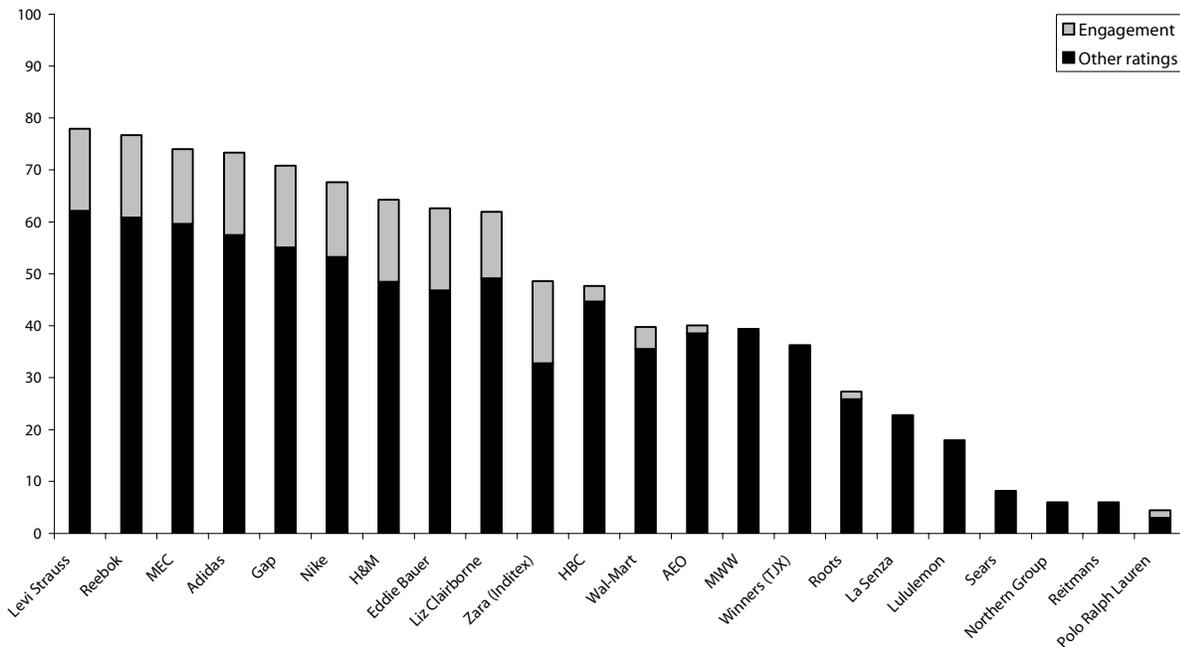
Transparency Report Card 2006

companies to disclose supply chain information. In 2006, Reebok joined a number of other brand merchandisers, including Nike, Levi Strauss, Timberland, and Puma in publicly disclosing the names and addresses of all the factories worldwide making Reebok sports shoes and apparel products. In 2006, MEC also announced its intention to disclose factory locations by 2008.

Last year only five of the companies surveyed reported any engagement with NGOs or trade unions on labour standards in the supply chain. This year, fourteen of the

companies reported varying levels of engagement. While five of those were new companies added to our Report Card this year, this does indicate a general increase in reports of engagement amongst the firms that dominate the Canadian apparel market, which we see as a positive trend. As Figure 1 indicates, with few exceptions companies that engaged with NGOs and trade unions on labour standards in the supply chain fared better in overall transparency ratings than companies that did not.

Figure 1: Engagement with NGOs and trade unions



New Categories

Sustainable Compliance

Significant changes in this year's reporting relate to new categories we assessed: worker involvement in labour standards compliance, and rewards and incentives for compliant suppliers. Both relate to the issue of sustainable compliance, which has been the subject of much discussion in recent company and multi-stakeholder initiative (MSI)⁵ reports.

Many of the indicators in our Transparency Report Card measure whether a company is taking steps to uncover and report on compliance problems in its supply chain. While adopting credible standards and measuring compliance with those standards is a critical step towards improving conditions, most leading companies and multi-stakeholder initiatives now argue that companies must go beyond auditing and move towards identifying "root causes" of non-compliance and ultimately addressing the drivers of pervasive abuses to achieve more sustainable compliance.

The evidence of audit results from most of the surveyed companies shows that violations of labour standards are not only common but persistent. Partly this is a result of the nature of management systems based on auditing alone – an audit uncovers problems, and a remediation plan may address the specific violation, but for the most part the pressures which created the initial problem tend to encourage additional violations over time. Without uncovering the underlying reasons for violations of international labour standards, the risk is that violations will continue to occur.

Yet few of the companies assessed here report efforts to identify and address root causes of labour standards violation, and amongst those that do report on their efforts there are significant limitations. We charted the main approaches to building "sustainable compliance" discussed by retailers and brands in their reports and web pages. These approaches include:

- ❑ Improving management systems and policies (for example, streamlining the ordering of materials, better logistics to reduce deadline pressures which encourage excessive overtime);
- ❑ Management training (to improve a supplier's ability to address violations or to better manage operations);
- ❑ Worker training (to improve communication and grievance procedures within supply factories);
- ❑ Changes to auditing systems (to expand auditing to address why violations happen rather than simply identifying them when they do);
- ❑ Collaboration with other buyers (to jointly address recurring problems in shared factories or in regions where multiple buyers operate);
- ❑ Changing production timelines (recognizing time pressures that buyers put on suppliers which may lead to violations such as excessive overtime);
- ❑ Changing purchasing prices (recognizing that investments in improvements in factory conditions may conflict with ever-lower prices paid by buyers); and

⁵ Multi-stakeholder initiatives are organizations in which member companies collaborate with labour and nongovernmental organizations to improve labour standards compliance in company supply chains. Examples include the Fair Labor Association, the Ethical Trading Initiative, and Social Accountability International.

Company	Supplier improvements			Buyer improvements				
	Management Training	Worker Training	Management systems and policies	Changes to auditing systems	Collaboration with other buyers	Production timelines	Purchase price	Long term relationships
adidas	●	●	●	●	●		●	
GAP	●	●	●	●	●	●	●	●
H&M	●	●	●	●	●	●		
HBC					●			
Levi Staruss	●	●	●		●			
MEC			●		●	●		
Nike	●	●	●	●	●	●	●	
Reebok	●	●	●	●	●	●	●	●
TJX	●		●					
Wal-Mart	●							
Zara (Inditex)					●			

Table 2: Addressing sustainable compliance

- Longer-term relationships (recognizing that building more solid relationships with suppliers allows room for improvements)

Table 2 illustrates which companies, among those that discussed “sustainable compliance” in their public materials, addressed which issues.

The table shows that the majority of these companies are in agreement that a few changes are priorities for their operations: collaboration with other buyers (9 out of 11); improving supplier management systems and policies (8 out of 11); and factory management training (7 out of 11).

There is less discussion in company reports on the issues of worker training (6 out of 11), improved auditing, and

changes to buyer production timelines; the latter two approaches were identified as a priority for less than half of the companies who addressed “sustainable compliance” in their reports.

Minimal attention is paid in company reports to two critical factors that impact on sustainable improvements in labour rights globally: the continual downward pressure on prices, and the lack of sustained commitment to production at any specific factory.

With regard to prices paid to suppliers, only four of the companies surveyed made any mention of purchase price as an issue, and among those four there was no concurrent discussion on how this issue might be addressed in their own supply chain operations.

Revealing Clothing

Nike, for example, does no more than mention price as a possible factor: "For example, to understand overtime, one must examine the buyer-seller relationship, including manufacturing timelines, pricing, quality demands and their associated downstream impacts on the worker. We need to understand better how our business decisions may contribute to negative impacts on workers."⁶

Gap merely mentions "chronic price deflation" as an "industry condition" leading to poor working conditions,⁷ firmly situating price as a broad industry issue rather than one over which a specific buyer (i.e. Gap) has control. Similarly, adidas mentions "pricing" in a list of variables impacting working hours.⁸ Reebok, while noting that purchase price may impact on compliance, lays the responsibility for low prices solely on the supplier: "It is not always possible to determine whether production lead times and prices *accepted by suppliers* are consistent with full implementation of our Standards."⁹ (emphasis added).

While the downward pressure on prices is indeed an industry-wide issue, the reality of fierce international competition is also exploited by some individual companies to bring supplier prices down or to extract other concessions from suppliers without regard for the impact on the supplier's ability to meet labour standards. The use of internet 'reverse auctions' or 'e-purchasing', open-book costing and other methods all put immense

pressure on suppliers to lower prices.¹⁰ Like Reebok, above, most retailers or brands seem to assume that a supplier will not bid a price which cannot be met without violating labour standards, or, like Nike, suggest that low wages are a result of low productivity rather than linked to price pressures.¹¹

If sustainable compliance is a company's goal, it cannot be pursued without understanding and addressing the potential impact purchase prices have on the ability to comply with basic labour standards, including wages.¹²

Intense price competition also combines with the lack of long-term commitments to specific suppliers and factories to send negative signals to suppliers on labour standards compliance. There is little incentive for a factory to make substantial investments in health and safety or other labour standards improvements on behalf of an international buyer that may or may not source orders from the factory once improvements are made.

Factory owners may resist taking measures that have the potential to impact on their bottom line unless there are clear commitments from brands, retailers and their sourcing agents to continue or even increase orders from the factory once improvements are realized.¹³ However only two of the companies surveyed mentioned development of longer-term relationships with factories as a strategy for sustainable compliance.

⁶ FY04 p.24, available at http://www.nike.com/nikebiz/gc/r/fy04/docs/FY04_Nike_CR_report_full.pdf

⁷ http://www.gapinc.com/public/documents/CSR_Report_04.pdf p.9

⁸ http://www.adidas-group.com/en/sustainability/suppliers_and_workers/exploring_labour_standards/working_hours.asp

⁹ http://www.reebok.com/Static/global/initiatives/rights/business/business_int.html

¹⁰ for further discussion on price competition see Oxfam, "Trading away our rights", pp 32-37, available at: http://www.oxfam.org.uk/what_we_do/issues/trade/downloads/trading_rights.pdf; Ethical Trading Initiative "Purchasing practices: Marrying the commercial with the ethical", available at: <http://www.ethicaltrade.org/Z/lib/2004/07/rt-purprac/index.shtml>; Insight Investment "Buying your way into trouble?" pp29-31, available at: http://www.insightinvestment.com/Documents/responsibility/responsible_supply_chain_management.pdf; and p.51, Ethical Trading Initiative. "Key Challenges in Ethical Trade", available at: <http://www.ethicaltrade.org/Z/lib/2003/12/eticonf/pdf/ETIconf2003.pdf>

¹¹ pp. 44-45, Nike FY04, http://www.nike.com/nikebiz/gc/r/fy04/docs/FY04_Nike_CR_report_pt2.pdf

¹² It should also be noted that only one of the companies in this study has a formal requirement to pay living wages in their code of conduct.

¹³ p.51, Ethical Trading Initiative. "Key Challenges in Ethical Trade", available at: <http://www.ethicaltrade.org/Z/lib/2003/12/eticonf/pdf/ETIconf2003.pdf>

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In category 4.4 of our survey, we assessed whether the company offered positive incentives to suppliers for improvements in labour rights compliance. Companies that integrated labour standards performance as a positive factor in their sourcing decisions received a 50% mark in this category. Companies were not granted the mark solely for negative incentives such as cutting off factories that did not perform. Instead, we looked for evidence that there was some gradation in company records evaluating a supplier's performance and steering sourcing towards companies that, all other things being equal, had better performance on labour rights.

To receive a 100% mark on category 4.4, companies must demonstrate that they provide factories with additional and explicit positive incentives to improve labour standards, including but not limited to increased orders, higher prices and/or longer-term supply contracts.

Only seven of the thirty companies surveyed reported that labour standards compliance was a positive factor in sourcing decisions. None of the companies reported offering additional and explicit positive incentives for improvements in labour practices.

Based on current company reporting, it seems that leading companies are beginning to recognize the limits of the auditing/policing model of labour standards compliance and are looking at new ways of building sustainable compliance. However, there is a higher emphasis in company reports on supplier and factory responsibility for labour rights abuses than root causes which may be linked to brand or retailer practices. Furthermore, root causes which stem from the basic low-price/high-mobility

business model adopted by the majority of the apparel industry are still not a major focus of discussion.

Worker involvement

Most of the management tools and reporting initiatives surveyed in this Report Card are aimed at reporting to investors, customers and other stakeholders such as NGOs and governments. Very little of the reporting done by companies is geared towards the workers who produce their goods.

While twelve of the thirteen companies in this study that have made their audit methodology publicly available report that worker interviews are part of the audit process,¹⁴ none of them gained points in category 5.6 for making audit results available to workers. Thus workers may be disengaged from the process after the initial interviews.

We also measured the company's reporting on its commitment to ongoing, scheduled training for workers in the country of manufacture (category 4.3). It is difficult to assess, based solely on company reporting, whether training programs include both workers and factory management personnel, whether they focus specifically on workers' rights, whether they are ongoing and scheduled, and whether they happen in only a few factories in selected countries or are taking place across the supply chain. Only one company, Reebok, achieved top ranking in this category. Others reported either focusing their training efforts (if any) on suppliers and/or factory management personnel, or reported ad-hoc or pilot training programs rather than systematically involving workers in the process through worker rights training.

¹⁴ Of the thirteen, adidas, which does share information about its revised and much more expansive auditing goals, does not share sufficient details about how the specific methods its auditors use to gather information. While we awarded adidas points for what it does publish and for its efforts to improve auditing methodologies and identify root causes of labour standards violations, we cannot confirm how workers are engaged in the auditing process.

Revealing Clothing

Lastly, in the newly added category 3.3, we measured whether the company reported any formal means by which workers and third parties can communicate with the retailer on problems in their supply chain. Because ETAG views worker participation in labour standards compliance as key to sustainable solutions, we believe companies need to provide formal mechanisms for workers to register complaints, and for independent investigations, and corrective action in response to these complaints.

Results on 3.3 were mixed. Some companies have instituted 1-800 numbers or local numbers through which workers can relay complaints directly to the retailer or brand. Where these numbers included local language support and were offered at no cost to the worker, we awarded points to the company for inviting feedback. (Some companies offered an e-mail address or 1-800 number without any indication that languages other than English were supported).

Companies that were part of formal multi-stakeholder initiatives like the Fair Labor Association (FLA) or the Ethical Trading Initiative (ETI) gained additional points for the availability of a third party complaint system with a clearly-articulated method of investigating and acting on complaints, including feedback to the complainant. Both programs provide for independent investigations by third parties. Under the FLA system, FLA-accredited auditors conduct investigations. Under the ETI system, the choice of whether to investigate and who conducts the investigation is negotiated between the complainants and the company, and the complainant can demand further investigations if they are not satisfied with the initial results.

None of the retailers or brands surveyed has a formal agreement with a Global Union setting out a complaints process or grievance procedure.

In both category 3.3 and category 3.2 we assessed whether the company had concluded a framework agreement with a Global Union. Like a code of conduct, an international framework agreement sets out minimum labour standards and worker rights that the company agrees to uphold in its operations. A framework agreement goes beyond a voluntary code, however, by requiring ongoing review, dialogue and negotiation between the company and the global union (which, in our rating system, is preferable to voluntary engagement). The existence of a framework agreement also indicates that a company has an open attitude toward democratic trade union representation. A framework agreement can also provide a mechanism for worker representatives through their Global Union to bring forward cases of worker rights violations and negotiate a resolution to the problem.¹⁵

Although none of the companies in this Report are currently meeting this benchmark, on November 6, 2006, Gap Inc. and the International Textile, Garment and Leather Workers Federation (ITGLWF) announced an agreement on a joint program of work which includes:

- ITGLWF briefings on freedom of association for all Gap Inc. compliance staff;
- discussions on a national level with Gap Inc. and ITGLWF national affiliates on developing a joint approach to promoting freedom of association and collective bargaining; and

¹⁵ For an example of an international framework agreement, see the agreement between the International Union of Foodworkers (IUF) and Chiquita Brands International for workers in the banana industry. For more information: http://www.iuf.org/bananas/2001/06/iuf_colsiba_and_chiquita_sign.html#more

- a plan for further dialogue at the national level in various countries with Gap buyers and compliance staff, national unions and suppliers to deal with industrial relations in the Gap supply chain¹⁶

This appears to represent a step forward towards formal agreements between Global Unions and international brands to improve compliance with labour standards across the entire supply chain.

The limits of reporting

Last year we noted the limitations of surveying companies solely on the basis of public reporting. From the industry side, some of the companies surveyed here have expressed concern that efforts they are making to address labour rights violations but are not publicly reporting are not captured. While we share the concern that the ratings may not reflect all that is being done by a given company, the purpose of the Report Card is precisely to encourage transparency. ETAG believes that companies should be reporting to their shareholders, customers, workers and the general public on what they are doing to address endemic problems in their industry.

On the other hand, we are also concerned that companies may meet many of the criteria in our rating system, and still have serious labour rights problems in their supply chain. For example, in 2006 alone the Maquila Solidarity Network (MSN) issued urgent alerts on labour rights violations by suppliers that have produced garments for Wal-Mart, La Senza, Gap, adidas, Reebok, Nike, and more generally for brands sourcing in Bangladesh (including Mark's Work Warehouse, H&M, Inditex, Wal-Mart, La Senza and Gap). Still more issues were raised privately with companies by MSN representatives.

In the Spring of 2006, Oxfam International released a report on freedom of association and sportswear companies in Asia,¹⁷ which included case studies involving Nike, adidas and Reebok, all of whom have fared relatively well in our Transparency Report Card. Oxfam's conclusion, from the factory case studies they examined, was that none of the companies included in their report would receive a passing grade on respect for freedom of association in practice (while noting that, in the case of Nike, adidas and Reebok, the companies had been cooperative in responding to reports of violations of freedom of association in factories producing their branded goods¹⁸).

This serves as another reminder that a company's relative transparency is, in and of itself, no guarantee of labour standards compliance within its supply chain. Our ratings in this Report Card reflect only the extent to which a company publicly discloses the presence of management tools, policies and systems to deal effectively with problems when they arise – not the existence or absence of problems at the factory level.

Size and capacity

While each company profiled in this report has an obligation to take steps to address labour rights issues in its supply chain and to report on those efforts, we recognize that there are differences in the capacity of companies to manage these issues.

First, there is the simple question of resources available to devote to compliance programs. Companies with

¹⁶ For more information see <http://www.itglwf.org/DisplayDocument.aspx?idarticle=15216&langue=2>

¹⁷ Oxfam International. Offside! Labour rights and sportswear production in Asia. 2006. available at: www.oxfam.org.au/campaigns/labour/06report.

¹⁸ Ibid, p. 102

Revealing Clothing

much larger sales and profits typically have more ability to hire compliance staff and engage more actively and directly with suppliers on the issues. While larger companies may also have much larger supply chains to track, the cost of the systems and processes they put in place to monitor and promote labour standards compliance is not directly proportional to the size of the sourcing base. Many of the indicators in this study do not correlate at all to the size of the supply chain. The fact that the Report Card rates companies largely on the basis of these labour standards compliance systems and processes could therefore unintentionally favour larger companies over smaller ones.

One way to illustrate the issue is by making a simple comparison of the ratio of a public company's score in this Report Card to its annual sales.¹⁹ As Table 3 indicates, the ranking of companies based on this ratio changes significantly. While our original ranking in Table 1 more properly evaluates a company's overall efforts on transparency and labour rights, Table 3 illustrates that when companies' overall size is taken into account, smaller public companies with fewer resources that are making significant efforts to report on labour rights issues in their supply chain compare favourably to retail giants like Wal-Mart that, under this alternative formula, shift close to the bottom rung of the ladder. As Table 3 indicates, despite annual sales that are over two-and-a-half times larger than those of the other 20 public companies in this report combined, the world's largest retailer is not even meeting the transparency standards of a company like Mountain Equipment Co-op. For comparison purposes, Wal-Mart sells as much in five hours as Mountain Equipment Co-op sells all year.

¹⁹ We compare public companies in this exercise, as annual sales figures from private companies are not readily available. Since sales information for HBC was still available, we included HBC.

That said, there is still substantial room for improvement amongst smaller companies like La Senza, whose score in this survey stems almost entirely from publishing a superior code of conduct and stating its intention to audit within its supply chain, rather than any significant

Table 3 : Ratio of score to sales

Company	Annual Revenues (\$Cdn)	Score 2006	Ratio, score:sales
MEC	\$194,000,000	74	1 : 2,621,622
La Senza	\$410,852,000	23	1 : 17,863,130
Eddie Bauer	\$1,198,672,053	63	1 : 19,026,541
Mark's WW	\$790,700,000	39	1 : 20,274,359
Reebok	\$4,274,957,966	77	1 : 55,518,935
Levi Strauss	\$4,698,629,065	78	1 : 60,238,834
AEO	2,626,800,882	40	1 : 65,670,022
Liz Clairborne	\$5,516,432,624	62	1 : 88,974,720
Adidas	\$9,539,042,308	73	1 : 130,671,812
HBC	\$6,946,000,000	48	1 : 144,708,333
H&M	\$9,504,617,912	64	1 : 148,509,655
Reitmans	\$969,258,000	6	1 : 161,543,000
Zara (Inditex)	\$9,692,918,561	49	1 : 197,814,665
Nike	\$17,069,174,107	68	1 : 251,017,266
Gap	\$18,234,159,976	71	1 : 256,819,155
Winners (TJX)	\$18,289,588,196	36	1 : 508,044,117
Sears	\$6,238,000,000	8	1 : 779,750,000
Polo Ralph Lauren	\$4,262,440,637	5	1 : 852,488,127
Wal-Mart	\$355,964,693,223	40	1 : 8,899,117,331
Forzani	\$1,310,500,000	0	0
Le Chateau	\$279,064,000	0	0

disclosure of policies and management systems or engagement with stakeholders.²⁰

Some companies note that as a result of their smaller size their orders tend to constitute a minimal part of a supplier's overall capacity and that they have less influence on that supplier than a company that represents a major part of the supplier's business.²¹ Further, there is debate over the optimal amount of a supplier's capacity that one buyer should occupy, which has at times led larger buyers to intentionally limit their sourcing in any one factory.

In either case a company could increase its potential impact by collaborating with other companies on efforts to ensure labour standards compliance in supply chains. Multi-stakeholder initiatives (MSIs) like the Fair Labor Association (FLA), Social Accountability International (SAI) and the Ethical Trading Initiative (ETI), in which member companies also collaborate with labour and nongovernmental organizations, have been developing collaboration between their members to address persistent problems in factories or regions where a number of member brands are sourcing goods.

Of the six new companies added to this year's report, five received full marks in category 3.1 for their participation in multi-stakeholder initiatives. One of the companies included in last year's report, Roots, has taken tentative steps towards membership in the Fair Labor Association (FLA), but has so far only been included as a

'Category B Licensee'. This means that only a small portion of its supply chain (which produces for the collegiate apparel market) is included in the FLA program and that it is not yet a full "Participating Company". For this reason it was not awarded points in category 3.1.

Additionally, Wal-Mart has taken steps towards participation in the multi-stakeholder Multi-Fibre Arrangement (MFA) Forum, which brings together companies, NGOs, labour and governments in projects to address the impacts of the phase-out of quotas in particular countries (such as Bangladesh and Lesotho). While ETAG is supportive of these efforts, we did not count participation in the MFA Forum as membership in an MSI because there is no formal membership or requirements of involvement as with other MSIs. Instead, we awarded points for engagement within the MFA Forum in category 3.2.

Collaboration is also assisted by public disclosure of factory locations, which allows companies with common suppliers to identify one another and jointly address any issues that may arise in shared factories. Companies can also minimize the number of audits at shared factories and devote more resources to addressing root causes. One of the new companies we added this year (Reebok) has recently disclosed all its factory locations. Another, Mountain Equipment Co-op, has committed to disclosing factory locations in 2008.

²¹ For discussion on how smaller companies can increase their influence, see <http://www.ethicaltrade.org/Z/lib/2002/11/agm-rtwksp2/index.shtml>

Revealing Clothing

Conclusions

In last year's Transparency Report Card, ETAG issued general conclusions based on the detailed findings outlined in individual company report cards. Those findings are available at: www.maquilasolidarity.org

Most of the general conclusions from last year's Transparency Report Card remain accurate and relevant. In addition, based on this year's survey of reporting, ETAG's general findings are:

Room for Improvement

While there has been some incremental improvement by some companies since our 2005 Report Card, based on ETAG's criteria none of the 30 retailers and brands surveyed is currently providing sufficient, credible and verifiable information to consumers or investors to allow them to make informed ethical choices. And, while there is room for improvement at all levels, some of the largest companies should be expected to devote proportionally greater resources to labour standards compliance compared to smaller companies.

Change in approach

Some leading companies are changing their approach to labour standards compliance by investigating root causes of persistent problems and trying to address them. However there is still a general reluctance to examine whether the apparel industry business model of low prices and high mobility is a primary factor in encouraging lowering labour standards.

Few positive incentives

Some companies are integrating evaluations of a supplier's labour practices in their sourcing decisions,

but none report offering positive incentives to suppliers or factories that meet or exceed labour standards, such as increased orders, higher prices and/or longer-term supply contracts. This means that the risk of investing in improvements falls disproportionately on suppliers. They must shoulder the costs of compliance, but have little guarantee that improvements will be rewarded.

Workers left out of the process

With a few exceptions, most companies are not fully engaging workers in labour standards compliance efforts. While workers are often interviewed during factory audits, no company reports providing feedback to workers on the results of those audits. In-country training programs tend to focus on supplier and factory management; there are fewer consistent efforts to train workers on their rights. There is some room for worker involvement through complaint systems. Some retailers and brands enable workers to lodge complaints directly with their company and one third of the companies in this Report participate in formal worker and third party complaint mechanisms through multi-stakeholder initiatives like the Fair Labor Association and the Ethical Trading Initiative.

Collaboration is critical

Collaboration with other companies, NGOs, and labour organizations is critical to addressing root causes of labour rights abuses. It is also a practical option for smaller companies that, on their own, do not represent a significant percentage of a supplier's capacity and therefore have less leverage. These cooperative efforts can be aided by increased public reporting and disclosure of factory locations.

Limits of reporting

Recent labour rights abuses discovered in the supply chains of some of the companies included in this report serve as another reminder that a company's relative transparency is, in and of itself, no guarantee of labour standards compliance within its supply chain. Our ratings in this Report Card reflect only the extent to which a company publicly discloses the presence of management tools, policies and systems to deal effectively with problems when they arise – not the existence or absence of problems at the factory level.

Recommendations

ETAG believes that combined and complementary policies and actions by various actors will be needed to adequately address labour standards issues in global supply chains. Last year we put forward a set of recommendations to companies, investors, lenders, governments, and consumers, all of which, with some additions, are repeated in the next two pages. These recommendations serve as a road map for better company reporting on labour standards compliance in the supply chain. If fully implemented, these recommendations would help remove the veil of secrecy from the apparel industry and set the stage for collaborative action to eliminate worker rights abuses in global supply chains.



Revealing Clothing

Recommendations to Retailers and Brands

Improve your reporting

1. Provide transparent public reports on your company's code implementation program, including information on audit findings and corrective action taken, stakeholder engagement, worker rights training, and other steps your company is taking to meet and maintain compliance with international labour standards.
2. Publicly disclose the names and addresses of facilities manufacturing goods for your company.

Improve your labour standards program

1. Ensure that your code of conduct is consistent with International Labour Organization (ILO) conventions, with particular attention to the core conventions on child labour, forced labour, discrimination, and freedom of association and the right to bargain collectively, and that it includes provisions for payment of a living wage by local standards and hours of work that comply with ILO standards.
2. Assign overall responsibility for labour standards compliance in the supply chain to senior management officials and, where applicable, to a committee of the board of directors.
3. Institute internal monitoring and external verification systems that provide accurate information on code compliance throughout the supply chain.
4. Ensure that code compliance staff and external auditors are qualified and properly trained to monitor labour standards compliance, particularly with respect to workers' rights.

5. Institute a staged approach that prescribes corrective action to deal with non-compliance. Do not "cut and run" when violations are discovered.
6. Engage with NGOs and labour organizations in importing and manufacturing countries.
7. Facilitate the active participation of local NGOs, workers, and labour organizations in code monitoring and remediation.
8. Facilitate worker rights training for workers and management personnel at the factory level and ensure that suppliers and workers are knowledgeable about their rights and responsibilities under the code and local law.
9. Join a credible multi-stakeholder initiative and collaborate with other companies and labour and non-governmental organizations on seeking labour standards compliance and long-term solutions to persistent industry-wide problems.
10. Take special steps to ensure respect for freedom of association in countries where that right is restricted by law.
11. Provide positive incentives and rewards to suppliers that meet or exceed labour standards in the code of conduct and local law.

Recommendations for government

Adopt policies and regulations that require and/or encourage companies selling apparel products to provide transparent reports on their efforts to meet and maintain compliance with ILO conventions in their global supply chains, including:

1. Regulations requiring companies to publicly disclose the factories where their apparel

products are made, thereby creating a level playing field with companies that have already provided this level of transparency.

2. Regulations requiring companies, including private companies, to provide annual public reports on their efforts and progress in achieving compliance with ILO core conventions, and other relevant social and environmental standards, in their global supply chains.
3. Ethical procurement policies, based on ILO conventions, for government departments, agencies and other bodies for the purchase of apparel and other textile products.
4. Preference in the granting of loans, grants, overseas investment insurance and other benefits to companies that have adopted codes of conduct that are consistent with ILO core conventions, are using credible third-party auditors to verify compliance with those standards, and are making public summaries of all audit reports and corrective action taken.

Recommendations to Investors

1. Work with other shareholders and stakeholders to pressure companies to improve their public reporting on labour standards issues where they have been found lacking.
2. Urge companies to provide sufficient information on their labour standards compliance programs, including audit findings and corrective action, as well as risk assessments of relevant issues, to allow investors to track progress and make ethical choices.

3. Call on government to adopt regulations requiring apparel companies to release annual public reports on their efforts and progress in achieving compliance with ILO core conventions and other relevant social and environmental standards.

Recommendations to Financial Institutions

1. As part of due diligence in approving loans or credit, require companies to provide sufficient information on their labour standards compliance programs, including audit findings and corrective action, as well as risk assessments of relevant issues, to allow the lending institution to assess risk and track progress.
2. Work with other stakeholders to require companies to improve their public reporting on labour standards issues where they have been found lacking.

Recommendations to Consumers

1. Urge all retailers and brands to provide consumers with sufficient information on labour practices in their global supply chains and their efforts to improve those practices for consumers to make ethical choices when they shop.
2. Urge companies that have done poorly in the Transparency Report Card to meet and exceed the ratings of industry leaders in the coming year.
3. Encourage all retailers and brands to work with labour and non-governmental organizations to improve working conditions in apparel supply factories around the world and to tackle root causes of persistent worker rights abuses in the industry as a whole.



Transparency Report Card 2006

COMPANY NAME	SCORE	 Governance Code Engagement Management Auditing & Reporting
Levi Strauss	78	
Reebok	77	
Mountain Equipment Co-op	74	
Adidas	73	
Gap	71	
Nike	68	
H&M	64	
Eddie Bauer	63	
Liz Clairborne	62	
Zara (Inditex)	49	
HBC	48	
American Eagle Outfitters	40	
Wal-Mart	40	
Mark's Work Wearhouse	39	
Winners (TJX)	36	
Roots	27	
La Senza	23	
Lululemon	18	
Sears	8	
Northern Group	6	
Reitmans	6	
Polo Ralph Lauren	5	
Boutique Jacob	0	
Forzani	0	
Grafton-Fraser	0	
Harry Rosen	0	
International Clothiers	0	
Le Chateau	0	
Tristan & America	0	
YM Inc.	0	