

CSR and the Supply Chain: The Case of the Global Retail Supply Chains Managed by the Hudson's Bay Company (HBC)

Canada

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Executive Summary

Corporate Social Responsibility (CSR) within the supply chain is an issue that has been discussed extensively within the Canadian economy. Canadians understand and support the economic benefits resulting from the trend towards freer trade and the sourcing of goods from overseas. At the same time, Canadians do not want to be seen as supporting economies and suppliers who insist on using CSR practices, particularly labour practices, that fail to adhere to International Labour Organization (ILO) and United Nations (UN) minimum standards.

Canadian consumers have demanded that their retailers carefully select and audit suppliers to ensure that they adhere to global standards of conduct within the supply chains that they use. Retailers such as the Hudson's Bay Company (HBC) have responded to these demands with enthusiasm. Indeed, in addition to CSR policies focused on the elimination of suppliers with unacceptable labour practices, or "sweatshops" from within the supply chain, the Hudson's Bay Company's definition of social responsibility includes environmental responsibility, such as energy efficiency and waste reduction, efficient transportation practices, and efficient practices related to building and operating retail stores.

For HBC however, it is the principles of corporate social responsibility that translate into the procedures and policies for managing global supply chains and avoiding the exploitation of workers from other economies.

The HBC goes through considerable lengths to ensure that products sold to Canadians come from "socially responsible" suppliers and economies or those that adhere to, or at least are willing to work towards adhering to generally accepted socially responsible practices and labor standards.

HBC has set up a Social Responsibility Program and an Ethical Sourcing Program that include an in-house Code of Vendor Conduct with stringent vendor prioritization and conduct verification policies.¹ In this way, HBC seeks to ensure that it only does business with suppliers that support and align with its own social responsibility goals. In the process, it is helping to promote business practices within its supply chains which reflect an acceptable definition of CSR.

Introduction

Corporate social responsibility within the supply chain is an issue that has been discussed extensively within the Canadian economy. The issue is very much related to the rapid globalization of supply chains in Canada, particularly in the retail sector. Canadians understand and support the economic benefits resulting from the trend towards freer trade and the sourcing of goods from foreign countries. At the same time, Canadians do not want to be seen as supporting economies and suppliers who insist on using CSR practices, especially relative to labour, that fail to adhere to International Labour Organization (ILO) and United Nations (UN) minimum standards. As a result, Canadian consumers have demanded that their retailers carefully select and audit suppliers to ensure that they adhere to such global standards of conduct within the supply chains that they use.

This case study relates the efforts being made within the Canadian economy to incorporate the principles of corporate social responsibility into the procedures and policies that manage global supply chains. It uses the case of a very well-known large Canadian company, the Hudson's Bay Company (HBC), to illustrate the lengths to which all Canadian retailers go to ensure that products sold to Canadians come from "socially responsible" suppliers and economies, those that

¹ 2005 Social Responsibility Report of the Hudson Bay Company. Website: <http://www.HBC.com>.

adhere to, or at least are willing to work towards adhering to generally accepted socially responsible practices and labour standards.

The case first presents Hudson Bay Company as a company firmly focused on ensuring CSR at all levels of its supply chain. It goes on to outline the Canadian context within which Canadian retailers, such as HBC, set up and operate global supply chains, with emphasis on the CSR practices of those supply chains. By necessity, the practices used in the Canadian economy have to be aligned with global practices negotiated under the UN or ILO umbrella since Canada is usually a signatory, and often one of the founding members of these organizations.

There are broad CSR issues discussed in Canada. The case examines those that are of concern to Canadians within the supply chain and summarizes the mechanisms used by Canadian industry, both domestic and global initiatives, to support the desired social responsibility goals. At the core of these initiatives is also the rights of individual economies to enact standards and labour laws that meet specific local needs that are, hopefully, consistent with the international standards.

The appendices to the report provide links to web sites containing information about CSR and the supply chain, and some detailed information on important global initiatives from economies outside of APEC.

Case Study: Hudson's Bay Company's Ethical Sourcing Program

Founded in 1670, the Hudson's Bay Company (HBC) is Canada's oldest diversified general merchandise retailer, operating in department store (the Bay), mass merchandise (Zellers), specialty (Home Outfitters and Designer Depot) and discount (Fields) retail formats.

With over 550 stores and nearly 70,000 associates located in every province in Canada, HBC provides Canadians with stylish, quality merchandise at great value, through retail banners focused on exceptional customer service.

HBC is a Canadian retail leader in corporate social responsibility. (Fourth Annual HBC CSR Report can be found at Website: <http://www.HBC.com>).

Canadian companies in general, and Hudson Bay Company in particular, are reacting to the Canadian's desire for effective CSR within the supply chain. Canadians generally support the Responsible Trading Guidelines of the Retail Council of Canada (governing all Canadian retailers), and the programs implemented by Hudson's Bay Company as part of its activities within its own global supply chains.

Social responsibility, as defined by HBC, goes beyond the concept of ethical sourcing and also includes environmental responsibility, such as energy efficiency and waste reduction in day to day operations, transportation practices, and practices related to building and operating retail stores.

HBC operates within a CSR environment legislated by the government of Canada, as well as by the retail association's supply chain initiatives which are described in more detail in the succeeding section of the case.

CSR Developments in Canada

Canadians refer to supply chain operations that fail to use acceptable practices as “sweatshops”. A sweatshop is most often described as a workplace in which workers are employed for long hours at low wages and under unhealthy or oppressive conditions. The U.S. General Accounting Office has developed a working definition of a sweatshop that is widely accepted in the Canadian economy as:

"an employer that violates more than one federal or state labour, industrial homework, occupational safety and health, workers' compensation, or industry registration law"

The term sweatshop was derived from the English word *sweater*. The term was first used in the mid 19th century to describe an employer or middleman who paid very low wages for long, monotonous work. The word *sweatshop* described a subcontracting system in which the middlemen earned profits from the margin between the amount they received for a contract and the amount they paid to the workers. The margin was said to be "sweated" from the workers because they received minimal wages for excessive hours worked in often unsanitary conditions.

In the 1880s, this type of working conditions was widespread in all economies currently described as “developed”. The phenomenon was initially supported by a large number of migrant workers from eastern and southern Europe desperately looking for work and willing to work for very low wages under almost any working condition. The practices were perpetuated at the turn of the century, and during the 1930s (the Great Depression), when terrible economic conditions made very difficult working conditions, even abuse of workers, a daily reality – a fact that is conveniently overlooked by many stakeholders in what are now more “developed” economies. By the middle of the 20th century, a growing social conscience for the plight of workers resulted in legislation to eradicate or control the existence of “sweatshops” in most of these developed countries.

Canadians realize that improving labour standards and eliminating supply chain operations that can be described as “sweatshops” is a journey that requires some time. According to the Encyclopedia Britannica, five main factors have contributed to the control of sweatshops in the 20th century:

- the growth of social idealism,
- pressure of the trade unions,
- extension of the business franchise,
- greater economies of scale of factory production, and
- the acceptance of modern labour practices with increased interest in human relations within industry.

The reality is that sweatshop conditions continue to exist in a number of APEC economies today, usually illegally or as part of the underground economies. They can be especially prevalent in less developed economies where certain “lower” socio-economic conditions tend to be more common, including:

- A large unskilled and unorganized workforce (which may include children) is readily available.
- A workforce is desperate for work.
- There are questionable management practices that are used to take advantage of this workforce.
- A state or governing body is possibly ignorant of the situation, incapable of rectifying it, or lacking in resources, capability or willingness to intervene.

It is clear that poverty and economic weakness are the root causes of the sweatshop phenomenon. Under such conditions, workers, and maybe even some governments, feel that they have to accept whatever conditions are given to them because the alternatives, (perhaps starvation and disease) are considered less appetizing.

Arbitrary employment practices are also a driving factor for workers accepting their working conditions. The fear of losing their only income-generating opportunity is a great motivating factor in maintaining silence and bearing the work load.

HBC's Social Responsibility Program

HBC is among a large group of Canadian retailers that aggressively drive social responsibility standards and have actively participated in the Retail Council of Canada Responsible Trading Guidelines.²

However, a closer look at the industry CSR trading guidelines reveal that they only ask retailers to use "reasonable" efforts to require their suppliers to provide decent, legal and humane working conditions at the manufacturing stage. They are also asked to use "reasonable" efforts to require their contractors to include these guidelines in their contracts.

This language is necessary because the Retail Council is an association, not a regulatory body. It would be inappropriate for the Council to require adherence to anything. In addition, the Council represents a wide range of retailers, from very small to very large. It would be difficult for the association to require from small retailers the same level of effort required from large ones who obviously have much more resources to use in addressing issues related to CSR in the supply chain. Finally, the Council can only really be active in the domestic Canadian economy. Addressing issues outside of Canada would be outside of its mandate.

For these and other reasons, HBC's own CSR program is much more rigorous than those suggested by the Retail Council's Responsible Trading Guidelines. The program is backed up by first, a rigorous verification procedure, and second, by a process by which suppliers are asked to make improvements on CSR within a certain timeframe.

HBC believes that social responsibility really encompasses all aspects of interactions with HBC stakeholders including employees, customers and the environment within which it operates. These interactions are a reflection of the values embedded in the culture of a retailer like HBC.

Arguably Canada's oldest and first company, HBC has a history spanning more than 370 years. It helped build the Canadian economy, particularly in the early years when Canada as an economy did not even exist. For this reason, the CSR culture of HBC goes beyond the company and includes a commitment to the various communities where it operates.

HBC's social responsibilities are very diverse and include a charitable foundation dedicated to improving the lives of Canadians by working with local and national organizations to invest in three key areas: a) building healthy families, b) creating strong communities, and c) inspiring Canadians to become more socially responsible.

The HBC believes that effective social responsibility begins at home, thus it invests in local hospitals, oncology centers, the Canadian Red Cross Disaster Relief Fund and Women's Shelters as part of its HBC foundation initiative. It also invests in programs for employees including those that ensure that employees are treated with respect and in a courteous and fair manner at all times.

² Responsible Trading Guidelines. Website: <http://www.retailcouncil.org>.

This commitment to CSR extends to areas outside the company and over 500 locations in Canada with nearly 70,000 employees. The company actively supports the volunteer efforts of its employees who actively participate in community and fund-raising efforts to help needy families within the communities served by HBC.

Under environmental responsibility, HBC has developed a comprehensive strategy to become more energy efficient, both within its stores and within the supply chain. They have done this by installing sensitive energy-demand controls and high-efficiency motors within heating, ventilation and air-conditioning plants. New stores are being designed to be 25% more energy-efficient than what is required by existing building codes. Such codes are viewed as only minimum standards and HBC knows that it can do substantially better by capitalizing on state-of-the-art technology to control and limit energy use.

The company's environmental response strategy has been very successful in reducing electricity use in retail operations by more than 100 MW and natural gas consumption by almost 10 million m³. This represents annual greenhouse gas emission reductions of about 50 megatons or the equivalent of removing 10,000 cars from the road each year.

Within the supply chain, environmental policies have resulted in the purchase of high-efficiency supply-chain equipment, and include utilizing rail-based Intermodal services in high-density corridors to help reduce fuel consumption and therefore greenhouse gas emissions. These broad CSR efforts are ongoing.

HBC has implemented its global reporting initiative, a commitment to identify and report on a large number of CSR indicators in their yearly CSR report (See Website: <http://www.HBC.com>). This initiative covers more than 32 economic and environmental performance indicators that are to be tracked year after year, and include indicators on labor practices, human rights and societal contribution.

HBC's Ethical Sourcing Program

HBC's Ethical Sourcing Program is defined as its commitment to being socially responsible in terms of the programs and policies that govern the sourcing of products sold through HBC.³ Because HBC has thousands of partners inside and outside Canada, HBC feels that it can make a significant impact on ethical sourcing issues if it works with merchandise vendors and manufacturers around the world, to ensure that its merchandise sourcing policies comply with international labor and human rights standards.

The goal of the social compliance program is to ensure that all HBC brands have been produced under humane conditions and protect the integrity of HBC's private brands. They do this through education and collaboration to ensure that meaningful progress can be realized in CSR within the supply chain.

The ethical sourcing program encompasses three basic principles.⁴

1. educating and training of HBC buyers, vendors and manufacturers on the Code of Vendor Conduct and audit process as a core element of HBC's auditing and compliance programs;
2. improving the quality and transparency of dialogue with external stakeholders; and

³ "Taking Care of Our Home." 2005 HBC Social Responsibility Report: 35. Website: <http://www.HBC.com>.

⁴ *Op. cit.*, 36.

3. leveraging international relationships to seek common programs that enhance the efficiency and effectiveness of social compliance within the global retail supply chain.

HBC realizes that it will be much less effective acting alone than if it were to act in concert with partners and other recent retailers to observe effective CSR within the supply chain. Its efforts start with education and training of HBC buyers, vendors and manufacturers about the code of conduct and the way the verification processes will be implemented. Such training helps suppliers, vendors and HBC associates to understand policies and procedures. For example, HBC introduced an intranet online learning course in 2005, which over 400 associates have completed so far. It is important that buyers and vendors are accountable for the factories they use for sourcing products.

A second principle involves removing secret practices and making everything transparent to external stakeholders. After all, “If you have nothing to hide, than you shouldn't have to hide anything.”

Finally, CSR within the supply chain is a global issue by virtue of globalization and free trade. As a result, effective CSR is highly dependent on establishing links and partnerships with other institutions, associations and companies with similar CSR goals. For example, the 2005 CSR report indicated that HBC:

... attends the annual Intertek Conference on social compliance, which provides an opportunity to collaborate with retailers, consumer brand companies and other stakeholders on the issues and challenges facing the industry in relation to social compliance. This... allows leaders in CSR to share ideas and experiences related to the implementation and performance measurements of ethical sourcing programs and their impact on the supply chain. One of the key challenges in the area of collaboration is achieving co-operation within the industry to address non-compliance.... HBC has taken the initiative to develop research and projects with Canadian Business for Social Responsibility (CBSR) to find effective methods for Canadian retailers/brands to establish a framework of collaboration within Canada. HBC continued working with the Fair Factory Clearinghouse (FFC) to advance international collaboration on programs and audit sharing.

Any CSR initiative is only as strong as its weakest link — usually those willing to gloss over poor CSR practices in the name of profit or rapid development. It is only through a concerted effort by all governments, all retailers and all suppliers that poor CSR practices in the supply chain will be eradicated throughout the world. HBC is committed to work with any and all its global partners and competitors to improve practices in the supply chain.

The ethical sourcing program at HBC is made up of two specific initiatives, a social compliance program and the HBC Code of Vendor Conduct. These initiatives are backed by an independent compliance and monitoring program which helps ensure that HBC's purchasing power is a force for positive social change in the economies that manufacture the products that it sells to Canada. HBC believes that working for ethical practices within their supply chains is of fundamental importance, and that it is a responsibility shared across the company: from the Board of directors, to the CEO, through senior management in their Social Compliance department who oversee the program and manage the day-to-day responsibilities, and right through to the merchants and sourcing teams who buy products in many economies around the world. HBC sees ethical sourcing, as “the bedrock of their business operations”.

HBC's social compliance program attempts to ensure that the products being sold in HBC stores are produced in conditions that respect the human rights principles as reflected by the United

Nations such as those of the *United Nations Global Compact* dialogue,⁵ and those of the International Labor Organization and its *International Labour Standards*.⁶

These standards address issues like:

- forced or child labor within the supply chain,
- respect for the right of employees to free association and collective bargaining, where applicable,
- humane treatment of workers,
- protection of the health and safety of workers, and
- avoidance of undisclosed trans-shipments (used by certain unscrupulous suppliers specifically to avoid ethical sourcing practices and codes of conducts).

HBC expects their vendors to share these ethical standards. It distributes a “Social Compliance Starter Kit: Policy and Procedures” to all existing and new vendors which contains information about HBC’s policies, the social compliance process, registration information and its Code of Vendor Conduct.

HBC requires all domestic and direct import vendors to participate in HBC’s Social Compliance program. Through HBC’s Global Sourcing department, facilities that manufacture the company’s merchandise are audited regularly by third party auditors to ensure compliance with the Code of Vendor Conduct. HBC’s Social Compliance team meets regularly with vendors to inspect their factory, list compliance issues, formulate corrective action plans and re-audit schedules. These meetings ensure improved social compliance monitoring on a regular basis.

*HBC’s Code of Vendor Conduct*⁷

The HBC Code of Vendor Conduct (CVC) is at the heart of HBC efforts towards CSR within the supply chain. HBC reports that it fully intends to conduct its business in a socially responsible manner and it is “determined to build business relationships with its business partners and their employees based on the highest ethical principles of trust, teamwork, honesty, and respect for the rights and dignity of others.”

They require business partners and their employees to endorse a set of ethical standards compatible with their own. They encourage and favour those suppliers and vendors who fully conform to standards of business practices that are consistent with the HBC principles. They are committed to engage only those business partners who demonstrate a commitment to contribute to the improvement of community working conditions and strive to meet the requirements stated in the CVC.

In many respects, the CVC goes beyond the basic requirements mandated by the ILO and the UN. HBC seeks to go further with rigorous verification and mandated remedial activities and re-verification of a list of requirements that Canadians in general support within the supply chain. (See **Appendix 1**).

⁵ Website: http://www.unglobalcompact.org/Issues/supply_chain_management/index.html.

⁶ Website: <http://www.ilo.org/public/english/standards/norm/index.htm>.

⁷ Vendor Code of Conduct. Website: <http://www.HBC.com>.

HBC's Vendor Prioritization and Conduct Verification Policies

HBC realizes that there are limits to its ability to affect the local policies and practices of its vendors. As mentioned before, HBC is a relatively small global player, and Canada is a relatively small economy and therefore may not have as much “pull” in terms of demanding changes in local practices as other, much larger global players. At the same time, HBC has hundreds of suppliers from all around the world including more than 580 suppliers in the Asia Pacific region as shown in **Table 1**.⁸ For this reason, HBC characterizes vendors in terms of degree of trading activity undertaken with them. It then establishes a prioritization sequence for frequency of verification, in terms of doing further business with those vendors and verifying compliance with codes of conduct.

The idea behind the prioritization is that, if one company deals regularly with a vendor, the company is more likely be able to demand and make an impact on the CSR practices used from the regular vendor than with a vendor which deals with the company once a year for a small order. The categories of vendors based on yearly volumes and the nature of the vendor relationship is as follows:

- Priority A vendors are those given high priority: top 200 `suppliers based on volume of sales, perceived risk and factory location
- Priority B vendors are new suppliers without an established track record, and all new vendors are carefully evaluated on social compliance criteria
- Priority C vendors are all existing suppliers that are not new or among the top 200 suppliers within a supply chain.

HBC then conducts its verification program, according to these established priorities. For example, in 2004, HBC conducted verification among 369 vendors and 491 factories throughout its supply chain. For 2005, this number had grown to 455 vendors and 634 factories, as shown in **Table 2**.⁹

Table 1:
Number of Factories by Region

REGION	
Asia	586
Central America	1
Europe	4
Middle East	7
North America	36
Total	634

Table 2:
Audits Completed by Vendor Priority*

	2004		2005	
	Vendors	Factories	Vendors	Factories
Priority A	114	199	100*	330
Priority B	168	187	207	241
Priority C	87	105	148	63
Total	369	491	455	634

As part of its verification process, HBC uses a three strike policy, meaning that a particular vendor or factory is given a number of chances to fix deficiencies, or otherwise improve on those areas that are not currently in compliance with the CVC. The purpose of the policy is to build a strong business relationship with key suppliers, as well as with factories that want to keep the HBC business. This includes being willing to fully disclose factory locations, pay for their audit, and actively participate in the compliance program. If a supplier breaches any of the above conditions more than three times in a fiscal year, the supplier may be suspended or may be barred from doing further business with HBC for a minimum of two years. In 2005 for example, 42

⁸ “Taking Care of Our Home,” 2005 HBC Social Responsibility Report: 39. Website: <http://www.HBC.com>.

⁹ Ibid.

* When the purchase order list from vendors for 2005 was finalized at the end of the year, only 100 of the top vendors were audited because of a lag in determining how many total orders each vendor fulfilled. Going forward, we will ensure that the top 200 vendors from the previous years are audited. “Taking Care of Our Home” 2005 HBC Social Responsibility Report: 39. Website: <http://www.HBC.com>.

factories received one strike and five factories received two strikes as part of the verification process.

Similarly, new factories are audited for compliance with this policy and are either approved or not approved based on the results of compliance audits. This policy ensures that suppliers being added to the supply chain are in full compliance with the CSR policies of HBC, and verifies that existing suppliers continue to adhere to the policies. Repeat offenders are subject to more frequent audits, and in the case of continued non-compliance, are eventually removed from the approved suppliers list. The following table presents the results of the vendor compliance and monitoring program from 2003 to 2005.

Table 3:
Results of Vendor Compliance and Monitoring Program Results: 2003-2005

Factories	2003	2004	2005
Approved	395 or 90%	474 or 07%	605 or 95%
Not Approved	46 or 10%	17 or 3%	29 or 5%

Source: 2005 HBC Social Responsibility Report entitled "Taking Care of Our Home." 39
Website: <http://www.HBC.com>.

The audit procedure is very comprehensive. The factory audits are performed by two independent firms so that buyers and local partners would not know in advance the timing of the audit, or affect the outcome of the audit. Audits are conducted over one or two days and consist of:

- an interview with the factory manager about any special conditions at the factory
- interviews with selected factory employees about their treatment
- a tour of the facility
- a complete review of employee documentation, such as wage and payroll reports, time cards, contract, personal files
- a closing meeting with the factory manager to review the findings and where applicable, develop a corrective action plan.

The audit reports are sent back to HBC and reviewed by the social compliance team, who assigns the final grade and reviews the findings with the particular suppliers. There is a three-level grading system. The audit grade received is associated with the audit schedule, and has a direct impact on the factory's production schedule with HBC.

As shown in **Table 4**, factories that are rated "subject to improvement", or "zero tolerance", are subject to a written corrective action plan and reviewed actively by the HBC purchasing group to determine, if and when, orders can be placed. HBC usually works with individual factories to determine the timeframe and degree of correction that is required. Because of the diversity of economies it deals with, corrective action plans tend to be unique to each circumstance, and usually depend on the nature of the action required and the reputation and track record of the factory or supplier involved. HBC negotiates with each factory and seeks a steady progress towards full compliance – which is typically rewarded with additional orders. Failure to show progress results in termination, or being prevented from receiving additional orders until the concerns have been addressed and re-audited.

Table 4:
Audit Reports Review System and Schedule

Audit Grades	Re-Audit Schedule	Production Schedule
Approved for Production	Facility will be re-audited in 1-2 years	Factory may proceed with production
Subject to improvement	Facility will be issued a CAP and re-audited within 6 months	Production may continue, but there may be delay or cancellation due to results of re-audit
Zero Tolerance	Facility will be issued a CAP and re-audited within 2 months	Production will be postponed or not accepted

Source: Please see page 38 of the 2005 HBC Social Responsibility Report entitled "Taking Care of Our Home."
Website: <http://www.HBC.com>.

In its Social Responsibility report for 2005, HBC noted many positive changes in factories that have been subjected to its compliance audits. However, the report admitted that long-term solutions have been slow in coming and a real challenge. HBC also suggested that purchase order size is the most significant obstacle in addressing factory labor standards. This is because factories receiving HBC orders representing only a small fraction of its factory output, tend not to have sufficient motivation to change practices, even when CSR is seen to be an important issue. HBC cannot act alone to improve CSR practices within the supply chain but must increasingly do so in concert with other larger retailers, local NGOs and government who need to support its efforts and require similar CSR compliant practices at the local level.

For this reason, HBC reports that in 2005, the social compliance team participated in meetings and joint audit initiative with local groups in the Asia Pacific region, such as the Asia Monitor Resource Center, the Hong Kong Christian Industrial Committee, and local university researchers from the East China University, to discuss regional challenges and social compliance and human rights issues. In Canada, HBC met with the Maquila Solidarity Network, religious groups and Play Fair at the Olympics to discuss its CSR program and policies. These discussions have led to a greater collaboration and understanding of the issues facing Canadian retailers in their social compliance efforts.

HBC also reports that facing challenges to its ability to encourage social change at a faster pace and collaboration with local NGOs would be helpful in implementing more effective mediation programs that might substantially improve CSR practices within the supply chain at the local level.

General Issues Related to Ethical Sourcing of Clothing and Apparel

For years, Canadians and Canadian retailers and wholesalers have worried about the impact of supply chain globalization on their own social responsibility, and by association, on the business practices of their suppliers from developing economies. Most Canadian products that are sourced outside of Canada tend to be related to clothing and apparel. For this reason, this section of the paper examines the CSR issues that Canadians care about within the supply chain for clothing and apparel.

Generally, Canadians support the goals of a number of global trading initiatives such as those of the *United Nations Global Compact* and the *International Labour Standards*¹⁰. Canadians refer to CSR issues within the supply chain using the term "ethical trading." Ethical trading initiatives

¹⁰ Website: <http://www.ilo.org/public/english/standards/norm/index.htm>.

seek to ensure that sourcing and business trading partners of corporations active in Canada meet the needs and expectations of Canadians in terms of social responsibility, not only in Canada, but also around the world.

Reflecting on the importance of the issue for Canadian retailers, the Retail Council of Canada suggests an implementation plan for Responsible Trading Guidelines (**Box 1**) which states that:

1. The Responsible Trading Guidelines (RTG) shall form part of any agreement the retailer enters into with its suppliers.
2. The retailer shall evaluate its suppliers by assessing their observance of the RTG.
3. The retailer shall assign responsibility for the implementation of the RTG to a responsible member of management.
4. Employees to whom the RTG applies shall be informed of it through the posting of the code in a prominent place in the local languages spoken by the employees and managers.
5. Employees to whom the RTG applies shall be provided with a confidential means of reporting violations of the RTG to the retailer and shall not be disciplined, dismissed or discriminated against for providing information about the observance of the guidelines.

Box 1:

The Responsible Trading Guidelines, Retail Council of Canada

- **Laws and Workplace Regulations:** The laws and regulations of the countries where goods are made shall be complied with.
- **Forced Labour:** Forced labour shall not be used, whether in the form of prison labour, indentured labour, and bonded labour, or otherwise.
- **Child Labour:** No person shall be employed under the age of 14, under the age interfering with compulsory schooling, or under the minimum age established by law, whichever is greater.
- **Harassment or Abuse:** Corporal punishment and other forms of coercion, abuse or harassment, whether psychological, sexual or physical, shall be prohibited.
- **Discrimination:** Discrimination in hiring or any other terms or conditions of work, other than *bona fide* occupational requirements allowed by law, based on race, colour, national origin, religion, disability, gender, sexual orientation, marital status, or political opinion, shall be prohibited.
- **Freedom of Association:** Employees shall be permitted to exercise lawful rights of free association.
- **Hours of Work:** The laws on working hours of the countries where goods are made shall be complied with and employees shall be entitled to at least one day off in every seven-day period, except as required to meet urgent business needs.
- **Health and Safety:** Conditions in all work and residential facilities shall be safe, clean, and consistent with all applicable laws and regulations regarding safety and health.
- **Wages and Benefits:** Employees shall be paid the higher of the minimum wage required by the laws of the countries where goods are made or the prevailing local industry wage and shall be entitled to all legally mandated benefits. Deductions from wages, not provided for by the laws of the countries where goods are made, shall not be permitted without the express permission of the employee.

The RTG itself was spearheaded by the Retail Council of Canada to assist its members in defining a consistent approach for the Canadian retail sector in the Canadian economy. The Retail Council of Canada is serious about CSR and the supply chain and devotes a portion of its web site to the issue.¹¹

¹¹ Responsible Trading Guidelines. Website: <http://www.retailcouncil.org>. See Appendix 2 for information on apparel related fair labor practice references.

CSR within the supply chain is actively discussed in the Canadian media. The issue came to the forefront in February 2001, when the Ethical Trading Action Group (ETAG) launched a disclosure campaign proposing that the government amend Regulations of the *Textile Labelling Act in Canada* to require disclosure of the addresses of manufacturing sites on labels of apparel sold in Canada. Unlike other disclosure proposals which limited their scope to domestic supply chains, ETAG wanted to find out about manufacturing locations worldwide, not just those in Canada. In making this request, ETAG members—a broad coalition including religious groups, labour groups, non-government organizations (NGOs), and other socially minded agencies, sought to facilitate verification of the labour standards employed at manufacturing sites around the world, particularly for clothing, shoes and other such apparel sold in the Canadian economy.

The ensuing Canadian media coverage made it clear that ensuring effective CSR within the supply chain is a major challenge for many Canadian retailers. The CSR efforts of Canadian retailers in themselves, provide no absolute guarantees that there are socially responsible practices within the supply chain. That is because large retailers, such as the Hudson's Bay Company, source products from thousands of locations and hundreds of manufacturers every year. For example, HBC sources products from almost 1,000 vendors representing 3,000 to 5,000 factories in 16 economies. It is difficult to imagine how HBC can be fully aware of all of the labour issues that such a supply chain would create, day in and day out.

Similarly, experts in supply chain management have documented the path taken by individual pieces of apparel from manufacturers to retailers and final containers. They confirm that the Canadian economy tends to have complex supply chains encompassing tens of thousands of items manufactured in hundreds of locations around the world. A well known author on the subject of clothing supply chains, talks about following the supply chain for a particular sweater "spanning 5 countries and 29,000 miles, a path that he characterizes as the normal pattern..."¹² This complexity makes it very difficult for any retailer, even the largest, with all of the resources they can muster, to really know and control the practices used in thousands of such supply chain patterns for tens of thousands of apparel products. Yet, this is what Canadians expect.

Compliance with overall local production codes and labour standards is usually the way the apparel industry attempts to control supply chains. Most industries and many large firms establish, require and enforce codes of conduct and other procedures for manufacturing facilities within their supply chains, including those facilities located in offshore economies.

Small firms can have an even more difficult time. Because they are small and possess fewer resources, they generally manage their supply chains through agents, wholesalers and other middlemen. Small importers and retailers rely on the business and CSR practices of agents and middlemen for their apparel purchases and imports. This greatly complicates supply chain monitoring because such firms have to rely on the good faith and practices of others, often located in other economies and subjected to local laws and labour practices. The agents or middlemen usually represent several manufacturers, each with multiple locations. The ability to hide or transfer production between plants at a moment's notice (what is called trans-shipment), makes verification particularly problematic and increases the difficulties of policing based on agreed standards and practices.

Small retailers find it very difficult to determine where their supplies come from. At the same time, they often lack the time and resources needed to verify the performance of every agent and importer they use to access suppliers. In some cases, these firms may be unwittingly using agents and middlemen willing to use operations that are actually sweatshops.

¹² Birnbaums Global Guide to Winning the Great Garment War (Paperback): 13.

The Global Apparel Market, and the Use of Agents and Middlemen

Since the turn of the century, the world has witnessed rapidly improving and socially responsible working conditions in the apparel industry. However, socially responsible working conditions have not improved as rapidly in all economies. For example, the lower levels of development and the widespread poverty that exist in many economies contribute to conditions under which poor labour standards can exist.

Many economies lack the capacity to effectively enforce labour laws that are otherwise acceptable to most trading partners. For example, one needs a structural ability to enforce standards in general before trying to address labour standards. Policies may instead stress the importance of gainful employment for the population and not working conditions. In many of these economies, a key question is whether there exists a sufficient capacity to address the complex issues that, in many ways, help support poor CSR practices. Purchasers of apparel in some economies also contribute to poor practices when they are willing to turn a blind eye to substandard practices in order to source cheaper product. Such practices taint the industry and support behaviours and practices that many Canadians find offensive.

It is also possible that unscrupulous manufacturers will willingly send their goods to other economies, through middlemen, to circumvent quotas, as well as to disguise the fact that one or more of their garments are made under questionable conditions. Hence, some may simply find it safer to produce apparel without regard to labour standards and to rely on subterfuge to sell the products in Canada than to produce the apparel in a more costly, albeit more ethical, means.

The global apparel industry is a highly competitive environment with hundred of thousands of suppliers and tens of thousands of retailers. These conditions can be extremely challenging for many economies and suppliers, and may actually create pressures to employ the kind of sub-standard labour standards that Canadians are concerned about. This is an operating reality that will not be solved by Canadians alone. As long as economies are willing to condone unfair labour practices in the name of industrial development, Canadians and their apparel manufacturers will simply have to be vigilant and avoid situations that they find unacceptable.

With so many suppliers chasing so relatively few purchasers, and with competitiveness dependent on providing the highest quality at the lowest possible cost, there is never a shortage of producers willing to make garments for less. Low prices do have their limits however, and the overall production costs, including macro costs and indirect costs, such as the cost of appropriate labour standards and CSR, need to be factored into pricing and purchasing decisions. Market conditions in some economies may not always support effective CSR, and charging an insufficiently high price almost guarantees that working conditions remain substandard, that is, manufacturers do not have sufficient resources to improve working conditions and guarantee effective CSR within the supply chain.

Moreover, the supply chain is subject to seasonal variations and has perhaps as many permutations as there are types of apparel. This is particularly true in Canada where winter apparel is substantially different and may have to be sourced differently from summer apparel. There are also long lead times for such apparel, with orders typically needing to be finalized six or seven months ahead of the selling season. This means that winter apparel needs to be ordered in mid-summer in order to arrive on the shelves ahead of the winter season.

One can only imagine the variety and number of permutations of the supply chains used by individual retailers and manufacturers. Under conditions of quota changes, seasonal changes, the number of types of apparel, the use of intermediaries or avoidance of their use, direct sourcing or

avoidance of direct sourcing, rules of origin, etc., it is no wonder that CSR within the supply chain becomes a challenge for many economies.

The Role of Apparel-Exporting Economies

Around the world, several organizations and programs have been working to improve working conditions. Indeed, there are prominent examples of organizations and programs dedicated to the implementation of socially responsible standards in the apparel industry (See **Appendix 3**).

Many large retailers require minimum production standards, including labour standards within the supply chain equation. This requires a number of trips to the manufacturing location and a number of test verifications to make sure an effective relationship is set up based on all of the aspects of supply chain management, including quality, price and CSR. The existence of effective legislations and regulations governing CSR in the exporting economy is an important enabler of CSR within that economy.

This is really a question of host economy government policy and administrative capacity, and the degree of government involvement in the issue of CSR in the supply chain. Should the governments of importing economies focus on policies in exporting economies in terms of government accountability, competitive behaviour, trade initiatives, accurate information and verification of CSR in the supply chain?

Socio-political issues in the host economy are often at the center of the issue of labour standards in the apparel industry. They relate to the human impact of the use and promotion of CSR, from the social responsibility factors in Canada that are driving our desire to do something about the issue, to factors in the economies that produce apparel. The socio-political dimension is a relatively important aspect and encompasses a number of very contentious questions:

- **Should CSR in the supply chains consider impacts on local workforce when the economy or operations become stigmatized because of the existence of sweatshop conditions, and the fact that those conditions may or may not be improved considering the existing economic conditions or level of development?**

Employees losing their jobs (or not having a job in the first place) because their local host economy employer is not willing or able to adhere to labour practices and standards acceptable to Canadians is really a difficult issue for a socially minded Canadian retailer. Issues such as foreign aid, local labour standards and the need to better educate the workforce are raised to explain that it is not really the job of an importing economy's retailers to solve the domestic need for socially responsible policies and procedures within the host economy.

Yet, many retailers care about the conditions that result when a Canadian manufacturer or retailer stops dealing with a particular location. They care about the relationships they have built up over time and the expense of having to set up new relationships. This level of caring explains why manufacturing locations found not to be in compliance with guidelines and codes of conducts are often given several chances to improve and to meet the standards. However, if that location is not able to provide the required elements of price, quality and on time delivery, it cannot be relied upon by Canadians, who expect these things when they buy apparel from Canadian retailers.

Some Canadians believe on moral grounds that we have to support employees in developing economies, even when the particular manufacturing locations fail to meet our standards. Such stakeholders believe we must "work with them" to improve standards. Even if you believe this to be true, questions such as *How* and *How long* should you be willing to work at it is a very

contentious issue in Canada. The same stakeholders often blame retailers in the media when examples of poor practice are uncovered.

- **Is it the responsibility of the importing economy's government to impose conditions on an offshore economy in exchange for market access, or is self determination an absolutely overarching principle?**

Many Canadians argue that as a socially responsible economy, we need to exert political pressure on all governments to adopt the types of minimum standards that Canadians view as “right” and as “fair.” This would include ensuring CSR within the supply chain. Yet, it is only when we speak about our own domestic practices that we really have complete control of this issue. Governments in other economies can, and have in the past chosen their own paths for improvements. Our only choice is to “not deal” with those who fundamentally refuse to believe in what we think is right. This is a double-edged sword. Is it ever feasible or even desirable to try and impose the use of Canadian standards on other jurisdictions?

Most Canadians believe that social responsibility involves at least adhering to local government standards, on the assumption that those standards are deemed to be globally acceptable, and not too far removed from our own expectations. This is usually a valid assumption within the APEC region.

- **Is there a reputation and/or image benefit to particular economy/manufacturers/suppliers in undertaking labour standards reviews and reforms?**

Many Canadians believe that there are a few issues, such as the wish to eradicate slave and child labour, on which there is broad consensus, and which has a significant impact on the reputation of the particular economy or supplier. Strong stakeholder pressure from consumer groups and the global economy are focused on relatively high-profile issues, such as child labour, rather than on the broader standards mandated by the ILO. Some will argue that there are degrees of CSR within the supply chain that affect the reputation of the host economy.

Yet, it is the full and complete adherence to ILO standards that is broadly thought to represent the desired direction for fair labour standards in the apparel industry. Canadian industry stakeholders are already doing their part to address the issue by means of their codes of conducts and the efforts they make at enforcing them. Canadian retailers report that they avoid certain economies, because they appear to be unwilling to support the types of operations and CSR to which Canadian companies have committed. Other economies are preferred because they are developing or have established very rigorous processes that support their CSR activity. As a result, it is an important aspect of the policy development of each economy to focus on mechanisms and policies that are useful and supportive of the CSR and the supply chain

Socially minded companies gravitate to socially responsible codes and work diligently to abide by them. Industry minded social groups support socially responsible codes even if they do not immediately achieve all of their goals. Governments conscious of their reputation balance the needs for action on CSR against the undesirable impacts of increased regulation and standard requirements on the economy.

It is therefore the emergence of codes of conduct and the willingness of suppliers to adhere to them which is seen as the most important indicator of effective CSR, and the driver of a CSR-minded reputation. It is difficult to force a recalcitrant supply chain stakeholder (industry, government, or supplier) into doing what is right in every case. The voluntary codes work best because they are voluntary.

Conclusions

It is clear from the above discussions that one cannot easily enforce socio-political aspects of a policy that runs counter to the desire or capacity of the local market participants and the local community to address the issue of CSR in the supply chain – even when it runs counter to those of the global community. We are therefore dependent on the proper understanding of the issues surrounding CSR and the supply-chain within each economy, and on the willingness of government and industry participants to voluntarily work towards complete adherence to widely accepted standards. This is why APEC initiatives such as the ones that led to this report are very important.

The best way to ensure CSR within the supply chain is to have consistent and concerted effort by all economies, all suppliers and all purchasers to practice effective CSR within the supply chain. This will tend to reward those suppliers using effective and generally accepted practices, and not those suppliers that repeatedly refuse to improve practices to a more satisfactory level.

At the turn-of-the-century, many developed nations struggled to ensure effective CSR in their domestic supply chain. With concerted effort and a combination of information, legislations and regulations that are enforced, those economies were able to largely eradicate poor CSR practices. This served to greatly improve the working conditions in their respective economies. With the advent of globalization and freer trade, the issue of CSR within the supply chain arose again as it revealed trading partners who did not, or could not afford to follow globally approved methodologies and practices to ensure CSR within the supply chain.

Canada continues to support CSR efforts within the Canadian government, industry associations and individual participants working together to define standards that are seen as minimum, and verify the existence of those minimum standards within the operations. In most cases, organizations use codes of conduct, with independent verification. Codes of conduct are seen by many as an effective way to inform consumers of the efforts being made to ensure fair labour standards in various industries, most notably apparel. Because they outline in relative detail the agreed upon standards that signatories will follow, they allow for more transparent verification and reporting.

However, because they are quite new, there are concerns that over time stakeholders will begin to criticize them as not stringent enough. Other stakeholders complain that the codes are not being managed closely enough by the industry and that verification may not always be effective. While it is true that we may never be able to satisfy all stakeholders with any initiative, a multitude of criticisms of this type tends to reduce the perceived value of a code. This has led to a proliferation of codes and a resulting dilution of the number of apparel industry participants that subscribe to any one code. This may eventually lead to confusion, as consumers compare and contrast the various codes governing the production of the apparel they want.

We can jointly contribute to a solution by continuing to work together, enacting laws domestically and implementing and enforcing codes internationally that will ensure that those employing unfair CSR practices are penalized while those employing fair practices are rewarded. We can also encourage others to do so and contribute to international initiatives in meaningful and effective ways. In the end, all of the parties concerned need to confront and correct questionable business practices. Only then will the benefit be felt by those who need it most.

Appendix 1

Code of Vendor Requirements

- **Legal Expectations:** All business partners and their employees must comply with all contract provisions, legal requirements and standards of their industry under local, regional and national laws and regulations of the countries in which the business partners are doing business. Should the legal requirements and the standards of the industry conflict, business partners and their employees must comply with the higher standard in the country in which the products are manufactured. Nothing in this Code is to be construed as encouraging, authorizing or condoning any action by any company or individual that breaches any applicable law or regulation, directly or otherwise. By extension, the provisions of this Code are not to be read as creating or implying meanings beyond those specifically explained in this document.
- **No Forced Labour:** Business Partners must maintain employment on a voluntary basis respecting the right of employees to decide to work or not. Business Partners shall not use forced labour, whether in the form of prison labour, indentured labour, bonded labour or otherwise in the manufacture or in their contracting, subcontracting or other relationships for the manufacture of their products.
- **No Child Labour:** The use of child labour is not permissible. Workers can be no less than age 15 (or 14 where the law of the country of manufacture allows), or the age at which compulsory schooling has ended, whichever is greater. In situations involving hazardous working conditions, we require that workers are at least 18 years of age. HBC supports the development of legitimate workplace apprenticeship programs for the educational benefit of younger people as long as they are not being exploited or given jobs that are dangerous to the child's health or safety. No child or younger person of compulsory school age should be employed during school hours and the combined time spent on school, transportation, and at work cannot exceed 10 hours a day.
- **No Harassment or Abuse:** HBC requires that every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse including the use of corporal punishment.
- **Freedom of Association and Collective Bargaining:** Management practices must respect the right of employees to free association and collective bargaining where applicable.
- **No Discrimination:** HBC recognizes and respects the cultural differences found in the world. They favour Business Partners who ensure that no employee shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age (other than normal hiring or retirement limitations), disability, sexual orientation, nationality, political opinion, union participation, social or ethnic origin or membership in any legal organization. Employment decisions will be made on the basis of knowledge, skill, efficiency and ability to do the job and meet its requirements.
- **Health and Safety:** HBC will only utilize Business Partners who provide safe and healthy work environments for their employees. Factories producing HBC merchandise shall provide adequate first aid supplies, fire exits and safety equipment, well-lit workstations, clean restrooms and ensure that all are well maintained and in good working order. Worker housing, where provided by the Business Partner, must meet a reasonable standard of health and safety.
- **Wages and Benefits:** HBC will seek Business Partners who share our commitment to the betterment of wage and benefit levels that address the basic needs of workers and their families so far as possible and appropriate in light of national economic conditions. Business Partners are required to pay the higher of, the prevailing industry wage, the minimum wage, or a wage that results in a decent living. Business partners shall provide all legally mandated benefits.
- **Hours of Work/Overtime:** Business Partners shall maintain reasonable employee work hours in compliance with local standards and applicable national laws of the countries in which Business Partners are doing business. In the absence of exceptional circumstances, HBC will favour Business Partners who utilize less than a sixty-hour work-week and not those who, on a regularly scheduled basis, require employees to work in excess of a sixty-hour work-week. Where this is not established at a lower level by local laws, HBC defines a standard work week to be not more than 48 hours and considers all hours in excess of this amount to be overtime, whether mandatory or not. Business

Partners are required to compensate employees for overtime hours including such premium rates as are legally required in the country of manufacture, or in those countries where such laws do not exist, at a rate at least equal to their regular hourly compensation rate. Unless exceptional circumstances exist, employees should be permitted at least one day off in every seven-day period, and leave privileges.

- **Resolution of Disputes:** Business Partners should incorporate a dispute resolution process as part of their management practices to allow employees to voice workplace grievances without the fear of reprisal.
- **Environmental Requirements:** HBC will favour Business Partners who conduct their business using progressive environmental practices and take active steps to preserve and protect the well-being of the environment. All Business Partners must adhere to all applicable environmental laws and regulations regarding protection and preservation of the environment in their country.
- **Transshipment:** Vendors will comply with applicable customs importing laws, and in particular, will establish and maintain programs and documentation to support country-of-origin production verification, to prevent illegal trans shipping of merchandise.

Source: Website: <http://www.HBC.com/HBC/socialresponsibility/sourcing/conduct>.

Appendix 2

Apparel-related Fair Labour Standard Resources Print and Web References

Print References

Birnbaum, David, *Birnbaum's Global Guide to Winning the Great Garment War* (Hong Kong: Third Horizon Press, 2000).

Web References

Business for Social Responsibility (BSR)

(Website: <http://www.bsr.org>)

Retail Council of Canada's Responsible Trading Guidelines

This site provides a wide range of information, including responsible trading guidelines in its archive section. (Website: <http://www.retailcouncil.org>)

Canadian Apparel Federation

This site provides labour-related information. (Website: <http://www.apparel.ca>)

Supporting European Initiatives on Monitoring and Verification of Codes of Conduct in the Garment and Sportswear Industries (SOMO)

The resource list contains documents on multi-stakeholder initiatives concerning this project as well as audit reports, discussion papers, and reports on labour standards. For a look at national initiatives, use (www.somo.nl/monitoring/project/fo-character.htm). For a look at the SOMO resource list, use (Website: <http://www.somo.nl/monitoring/resource.htm#sw>).

The Workers' Rights Consortium (WRC)

The WRC is a non-profit organization created by college and university students, administrators, and independent labor rights experts to help enforce manufacturing codes of conduct adopted by colleges and universities. (Website: <http://www.workersrights.org>)

The Fair Labor Association (FLA)

The FLA is a non-profit organization combining the efforts of industry, non-government organizations (NGOs), colleges, and universities to promote adherence to international labor standards and improve working conditions worldwide. (Website: <http://www.fairlabor.org>)

Clean Clothes Campaign (CCC)

The CCC is a coalition of trade unions and NGOs, including development, consumers, solidarity, and fair trade organizations. It is active in 11 European economies and embraces nearly 300 organizations. (Website: <http://www.cleanclothes.org/campaign.htm>)

Social Accountability International (SAI)

SAI describes itself as working "to improve workplaces and combat sweatshops through the expansion and further development of the international workplace standard SA8000 and the associated S8000 verification system." (Website: <http://www.sa-intl.org>)

TransFair Canada

Transfair describes itself as "Canada's only independent certification organization for fair trade in coffee, tea, cocoa, and sugar. (Website: <http://www.transfair.ca>)

Appendix 3

Selected Initiatives that Focus on CSR and the Supply Chain

Clean Clothes Campaign's Code of Labour Practices. This European-based Code of Labour Practices sets forth minimum standards for wages, working time, and working conditions and provides for observance of all of the core standards of the ILO, including Conventions 29, 87, 98, 100, 105, 111 and 138. They are minimum standards meant to apply throughout the industry and in all economies. The code is not a trade protectionist measure. It is not meant to be used as a means to close the markets of some economies at the expense of workers in other economies.

Ethical Trading Initiative (United Kingdom). The Ethical Trading Initiative (ETI) brings together companies, unions, and NGOs to identify and promote good practices in the implementation of codes of conduct, including monitoring and independent verification. Companies such as Anchor Seafoods, Body Shop, Chiquita, Levis, NEXT, Marks and Spencer, Safeway stores, Brooke Bond Tea, Tetley Tea, and Twinings are members. The ETI has developed a multi-sectoral Base Code based on ILO standards. It includes provisions for a living wage, freedom of association, and security of employment. ETI members are currently participating in four pilot projects, testing various models of code verification. Details of the initiative can be found at www.ethicaltrade.org.

Fair Wear Foundation (Netherlands). The Clean Clothes Campaign (CCC) was successful in bringing together Dutch NGOs, labour centrals, and associations of apparel retailers and manufacturers in a five-year process of negotiations for an industry-wide code of conduct that has provisions for independent monitoring and certification. This became the Fair Wear Foundation. Unions, NGOs, retailers, and manufacturers are represented on a Fair Wear Foundation committee that will hire external monitors, evaluate their reports, and certify apparel companies and their supplier factories. This is an example of a type of verification arrangement. In the Netherlands, agreement has been reached on a voluntary code that includes strong provisions on freedom of association, hours of work, and a living wage. The Fair Wear Foundation will ensure that the codes are being applied fairly and will certify compliance. More information about the Fair Weather Foundation can be found on the organization's web site at <http://www.fairwear.org>.

FairTrade Labelling Organization. The FairTrade Labelling Organization (FLO) is a non-profit, membership-based association of National Initiatives (17 members worldwide) which promote fair trade labelling in their national markets. They do this by lobbying governments for support; negotiating with importers and retailers; and running education programs with the aim of supporting marginalized producers on the road to sustainable development.

The label identifies FairTrade products so that consumers will buy them, giving FairTrade producers access to international markets on fair terms. FairTrade products do not currently include apparel, but the concepts used in FairTrade could be adapted to apply to it. Information about the FairTrade initiative can be found at website: <http://www.fairtrade.net>.

FLO is the only certification system in the world where producers do not pay for their certification. The consumer pays for the FairTrade system. Traders pass on to consumers the higher FairTrade price and the premium that is paid to producers for FairTrade products. The National Initiative in the economy where the products are sold charges the licensee a fee for using the FairTrade label. This pays for all of FLO's certification and monitoring costs and for the National Initiatives marketing expenses. Including the cost of the system in the retail price makes FairTrade labelling sustainable.