



Lessons from Corporate Social Responsibility Initiatives in the Apparel and Textile Industries

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Contents:

Introduction	2
Lessons from the apparel industry.....	4
Labour and human rights standards.....	4
Social auditing.....	7
Some policy options that would complement voluntary initiatives	9
Legal reporting requirements	9
Procurement policy	9
Social/environmental criteria and government support.....	10
Capacity building	10
Trade agreements.....	10
Conclusion	10

■ Introduction

The Ethical Trading Action Group (ETAG) is a national coalition of faith, labour, teacher, student and non-governmental organizations advocating for government policies and regulations, voluntary codes of conduct and ethical purchasing policies that promote humane labour practices based on accepted international labour standards. ETAG also advocates for 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.¹

We make this submission to the National Roundtables on Corporate Social Responsibility to share lessons from the apparel industry which may be instructive across sectors. While there are critical differences in the structure of the apparel sector and the extractive industries which call for different regulatory approaches, there is much to be learned from the experience in the apparel industry, where high-profile debates on corporate social responsibility (CSR) have generated over ten years worth of policy experiments.

ETAG was formed in 1999 as the reference group for civil society participation in multi-stakeholder discussions convened by the federal government to seek agreement on a Canadian base code of labour practice and monitoring and verification process for the apparel and footwear industries. This initiative was known as the Canadian Partnership for Ethical Trading (CPET). At the time, ETAG proposed that those discussions also look at government policies and regulations that would complement and reinforce a voluntary code. However, because ETAG and the industry associations involved in those discussions were unable to gain agreement on the inclusion of the core labour rights conventions of the International Labour Organization (ILO) or the principle of independent verification in a code, no discussions took place on government policy.²

Following the breakdown in the CPET process, ETAG assessed other possible policy options to address the problem of sweatshop abuses in the apparel and footwear industries. We developed a program that combined government policy advocacy, promotion of the adoption of ethical purchasing policies by public institutions, and dialogue with individual companies for the inclusion of internationally accepted minimum labour standards and transparent, credible and effective monitoring and verification methods in voluntary codes of conduct.

¹ ETAG members includes: Canadian Auto Workers, Canadian Council for International Co-operation, Canadian Labour Congress, Canadian Union of Public Employees, KAIROS: Canadian Ecumenical Justice Initiatives, Maquila Solidarity Network, Oxfam Canada, Steelworker Humanity Fund, Students Against Sweatshops-Canada, and UNITE. The Maquila Solidarity Network (MSN) acts as the secretariat for ETAG.

² For an analysis of the CPET process, see: www.ccic.ca/devpol/csr/csr1_canadian_ngo_policy_views.htm

ETAG has consistently supported a policy mix that includes both voluntary initiatives and government action, and a combination of hard and soft regulation that promotes greater transparency so that citizens, consumers and workers can play an active role in the achievement of policy objectives. At the same time, we share the concerns raised in a number of recent studies that voluntary initiatives and market enforcement mechanisms have very serious limitations and therefore should not be seen as a substitute for government action at the national or multilateral levels.³

That's why we welcome this investigation into the potential for government policies and regulations to achieve improved social and environmental practices in Canadian extractive industries. The recommendations in the Fourteenth Report of the Standing Committee on Foreign Affairs and International Trade, while specifically aimed at the operations of Canadian mining companies, were a positive move towards addressing the human rights impacts of Canadian companies that should be applied across the board.

As noted above, we believe we can contribute some of what has been learned from the experience of corporate social responsibility efforts in the apparel sector. But ETAG is also concerned that where human rights and labour rights standards are being set, they are consistent from sector to sector. Lastly, where government assistance and regulation is being considered it is our hope that it may be applicable across these and other industries.

One global observation from over ten years' experience with codes of conduct and other purely voluntary CSR initiatives in the apparel sector is that voluntary initiatives, on their own, have been a dismal failure in curbing the worst violations of labour and human rights. Although there have been some individual cases where a combination of action by various stakeholders has improved conditions in a given factory, company reporting has made clear that violations of internationally-recognized labour rights are still pervasive in the industry. If anything, the situation of apparel workers worldwide has become even more precarious and wages and working conditions have gotten worse rather than better. This, despite the innumerable voluntary codes of conduct and other programs initiated by companies and other actors.

A lack of common standards and agreed-upon rules limits the ability of companies to address social responsibility issues unless they develop in-house expertise that is beyond the capacity of many small-to-medium sized enterprises. Further, in a highly competitive market, companies that take the steps necessary to truly address labour and human rights issues find themselves undermined by less scrupulous competitors. This is especially true in the largest part of the apparel market, the non-branded discount goods that sell on the

³ For critiques of the limits of voluntary codes, see: Peter Utting (UNRISD), "Corporate Responsibility and Labour Issues in China: Reflections on a Beijing Conference," *The Journal of Corporate Citizenship*, Summer 2003; and Dara O'Rourke, "Outsourcing Regulation: Analyzing Nongovernmental Systems of Labor Standards and Monitoring," *The Policy Studies Journal*, Vol. 31, No. 1, 2003.

basis of price rather than image or quality. This is the segment of the apparel market that is most analogous to the extractive industries, where price and convenience rather than branding and image are the primary selling factors and voluntary measures driven by consumer pressure will have little effect.

It is precisely in these kinds of situations – where markets fail – that government regulation is necessary. For this reason we endorse the demands of the Canadian Network on Corporate Accountability for government action to enforce respect for basic human rights, labour and environmental standards in the extractive industries and ask that compatible regulations, incentives and trade arrangements be adopted to address the practices of companies operating in other sectors like consumer goods including apparel, footwear, electronics and toys.

■ **Lessons from the apparel industry**

Despite its failure as a stand-alone method of addressing labour and human rights abuses, the experience of voluntary initiatives in the apparel industry may provide other useful lessons for regulating the extractive industries.

First, there has been a lengthy period of deliberation on the appropriate labour standards for industrial codes of conduct around which there is now a certain amount of convergence. Second, there has been some experience in the field of social auditing which provides some lessons for confirming compliance.

Labour and human rights standards

In ETAG's view, voluntary codes of conduct should supplement and not substitute for government regulation. At the same time, while voluntary codes are not a comprehensive solution to the systemic problem of labour rights abuses, they can be useful tools to help ensure respect for workers' rights and provide consumers information that will help them make ethical choices. To be useful tools for workers and consumers, voluntary labour and human rights codes must include the following elements:

- Code provisions based on the internationally recognized minimum labour standards of the ILO and UN;
- Adequate mechanisms for internal monitoring and external verification;
- Transparency, not only concerning the processes for monitoring and verification, but also audit findings and corrective action taken, as well as the location of production facilities;
- Awareness of workers and management personnel of the code provisions and how they are enforced; and

- Participation of civil society and workers in the ongoing monitoring of code compliance and secure and effective and transparent mechanisms for workers and interested third parties to register complaints if provisions of the code or local law are violated.

Over many years of practice, there has been general acceptance that code provisions must meet internationally-recognized labour and human rights standards found in the core International Labour Organization Conventions and UN Declarations. These standards have the benefit of being applicable across borders (rather than simply being impositions of US or Canadian standards) and are the result of tripartite process involving government, labour and industry.

While codes based on ILO standards have become the acceptable norm for any credible corporate social responsibility program, many companies have yet to meet those standards in their voluntary codes and a variety of approaches to codes and code implementation can still be found in the apparel industry.

The proliferation of voluntary codes of conduct with varying standards and monitoring and verification requirements and procedures has caused a great deal of confusion for local suppliers, workers and governments, as well as for northern consumers. For this and other reasons, including cost factors involved in monitoring code compliance and the risk involved in taking the lead among competitors on corporate social responsibility issues, companies have decided to co-operate, often through industry associations, in the development of sector-wide codes of conduct and monitoring systems. Two examples of this form of industry self-regulation are the Worldwide Responsible Apparel Production Certification Program (WRAP)⁴ and the Retail Council of Canada's Responsible Trading Guidelines.⁵

While there are obvious advantages to companies working together on a sectoral basis on the implementation of a common set of standards, there are also negative aspects to these industry association-led code initiatives, including their tendency to adopt lowest common denominator standards that are acceptable to all their members and "closed door" monitoring systems that provide little information to workers, investors, other stakeholders or customers.⁶ In our experience, purely industry-led self-regulatory initiatives of this sort are not a credible alternative to either government regulation or broader multi-stakeholder initiatives and their example should not be repeated in the extractive sector.

⁴ See the Worldwide Responsible Apparel Production (WRAP) Certification Program website: <http://www.wrapapparel.org> For a critique of the WRAP system, see MSN's "Are Apparel Manufacturers Getting a Bad WRAP?" from *Codes Memo*, Number 12, November 2002.

<http://www.maquilasolidarity.org/resources/codes/memo12.htm>

⁵ Retail Council of Canada, 2001, op. cit. For a critique of RCC Guidelines, see MSN's "What's Wrong with the Retail Council's Guidelines?" <http://www.maquilasolidarity.org/resources/codes/rccguidelines.htm>

⁶ Michael Posner and Justine Nolan, Lawyers Committee for Human Rights, "Can Codes of Conduct Play a Role in Promoting Workers' Rights," International Labor Standards Conference, Stanford Law School, June 2002.

Some companies – usually those with an historical commitment to corporate social responsibility and/or merchandisers of brands that are particularly vulnerable to public criticism – have felt the need to work together in multi-stakeholder initiatives with like-minded firms, as well as with trade unions and other civil society organizations that bring credibility and expertise to the development of code monitoring and verification systems. Those initiatives that are most relevant to the apparel sector include Social Accountability International (SAI),⁷ the Fair Labor Association (FLA),⁸ the Ethical Trading Initiative (ETI),⁹ the Fair Wear Foundation (FWF),¹⁰ and the various multi-stakeholder pilot projects initiated by Clean Clothes Campaign groups in various European countries.¹¹

More recently, these multi-stakeholder initiatives, together with the Clean Clothes Campaign, have come together through the Joint Initiative on Corporate Accountability and Workers' Rights (Jo-In) to assess best practice in codes of conduct and their implementation. Significantly, the MSIs involved in the Jo-In project have adopted a common code of conduct for a pilot project in Turkey that is strictly based on ILO Conventions and includes a living wage provision.¹² Recently, the Buyers Group of the MFA (Multi-Fibre Arrangement) Forum, which brings together retailers and brands representing approximately 90 percent of the apparel orders placed in Bangladesh, agreed to adopt the Jo-In Code as a common code of conduct for all their suppliers in Bangladesh. One of the major reasons for the success of MFA Forum's in-country project in Bangladesh is the fact that government departments and multi-lateral institutions, as well as companies and local and international labour and non-governmental organizations, are involved in the initiative. The active involvement of government and multi-lateral institutions, and the fact that government regulations and issues like the minimum wage are up for discussion, has greatly increased this MFA Forum project's chances of success. This MFA Forum multi-stakeholder initiative is a prime example of voluntary and regulatory approaches complementing each other.¹³

Another example of government policy, voluntary initiatives and the work of multi-lateral institutions complementing one another is the Better Factories Cambodia project, in which the ILO monitors compliance with international labour standards and Cambodian labour law in the country's garment export factories and provides transparent public reports that allow for scrutiny by workers, trade unions, civil society organizations and other interested parties. In this program, the Cambodian government plays a key supportive role by requiring participation of apparel companies in the program as a condition of receiving export licenses. Although this program originated as a central element in a bilateral trade agreement, it continues to operate in the post-quota

⁷ See SAI website: <http://www.sa-intl.org>

⁸ See FLA website: <http://www.fairlabor.org>

⁹ See Ethical Trading Initiative website: <http://www.ethicaltrade.org>

¹⁰ See Fair Wear Foundation website: <http://www.fairwear.nl>

¹¹ See the Clean Clothes Campaign website: <http://www.cleanclothes.org>

¹² See Jo-In website at: <http://www.jo-in.org/index2.htm>

¹³ For more information on the work of the MFA Forum in Bangladesh, visit: http://www.accountability.org.uk/mfa_forum/bangladesh/index.html.

environment with the support of brand-name companies that source from the country, international institutions, trade unions and NGOs, and the government of Cambodia.¹⁴

While these voluntary multi-stakeholder initiatives are welcomed, the role of voluntary initiatives should be to develop best practices that meet and surpass internationally recognized minimum standards, research new approaches and encourage multi-stakeholder dialogue and problem-solving. They should not be the means through which minimum standards are set and enforced. Government can and should play a role in identifying minimum standards for labour and human rights that companies must meet, based on ILO Conventions and UN Declarations.

Social auditing

One of the biggest challenges facing companies, industry associations and multi-stakeholder initiatives attempting to implement codes of conduct is the need for credible, effective and affordable systems and methods of monitoring and verifying compliance with international labour standards. A closely related issue is what organizations, private firms and/or individuals are best qualified, trusted by both workers and employers, and sufficiently independent and objective to carry out external verification of code compliance.

These may also be issues for social auditing in the extractive sector. While technical expertise on some environmental practices and financial issues is necessary, local NGOs, workers, governments and community organizations must play a role in social auditing if violations of basic labour, human rights and environmental standards are to be discovered and effectively remedied.

While private sector auditing firms continue to dominate the rapidly growing field of social compliance verification, there is increasing concern among companies as well as civil society organizations about the limitations of commercial auditing firms as verifiers of labour standards compliance, particularly their ability to assess compliance with rights-based issues, and the poor quality of labour standards audits currently being carried out.¹⁵ At the same time, in the apparel and textile industries, there is also a general recognition that most local non-governmental organizations do not currently have the capacity, or in many cases the desire, to carry out certain more technical aspects of the monitoring and compliance verification processes, such as book audits or health and safety inspections.

In response to the monitoring dilemma, the major multi-stakeholder code initiatives, as well as some leading companies implementing codes outside of those initiatives, are

¹⁴ For more information on Better Factories Cambodia, visit: <http://www.betterfactories.org/>

¹⁵ Dara O'Rourke provides an excellent case study and analysis of the limitations of commercial auditing. See "Monitoring the monitors: a critique of corporate third-party labour monitoring," pp. 196 – 208, in *Corporate Responsibility & Labour Rights, Codes of Conduct in the Global Economy*, Rhys Jenkins, Ruth Person & Gill Seyfang (eds.), Earthscan, 2002.

examining ways to improve the quality of audits, develop more rigorous procedures and protocols for those audits, involve local workers and civil society actors in the monitoring and verification processes, and increase the transparency of those processes.¹⁶ Some leading companies and multi-stakeholder initiatives are also experimenting with new methods of tackling the root causes of persistent worker rights violations that the private sector social auditing model has failed to address.

For SAI, which relies heavily on commercial auditors to verify compliance with the SA8000 Standard, the emphasis has been on improving training of auditors, assessing certifications in particular countries, and strengthening its complaints system in which workers and interested third parties can register complaints when there is evidence that workers' rights are violated in SA8000-certified facilities. For the FLA, the response has been to bring control of auditor selection in house, to reassess the question of certifying brands, to publish summaries of audit reports, and to create new programs to supplement social audits. In an attempt to overcome some of the inherent weakness and limitations of the private sector social auditing model, the FLA recently launched a new initiative, FLA 3.0, in order to identify and remediate root causes of worker rights violations. The FLA claims that FLA 3.0 will give local stakeholders an integral role in "identifying compliance issues, providing remedial and capacity building services, and assessing progress made by suppliers."¹⁷ For the ETI, the FWF and the Clean Clothes Campaign-initiated pilot projects, the focus is learning by doing and the development of local tripartite (labour, NGO, supplier) organizations and partner networks to ensure Southern involvement in code implementation.¹⁸

For all these competing initiatives, there is an increased commitment to labour rights training for workers and local management personnel, so that workers can play an ongoing role in the monitoring process. NGO participants in these initiatives have also put increasing resources into capacity building projects to facilitate local civil society participation in codes monitoring and verification. Also, in all these initiatives increased transparency in reporting has become a major theme.

Although a much more detailed review of social auditing and other verification and compliance mechanisms is not possible here, there are four key considerations for government.

- One, government can play a role in strengthening the capacity of local organizations, governments and workers in countries where Canadian companies operate and/or source goods and materials through financial support, training, exchanges and other supports.

¹⁶ MSN, "Multi-stakeholder Initiatives Seek Common Ground," in *Codes Memo*, Number 14, June 2003. <http://www.maquilasolidarity.org/resources/codes/memo14.htm>

¹⁷ For more information on FLA 3.0, visit: <http://www.fairlabor.org/all/resources/FLA3.0/index.html>

¹⁸ MSN, "Year End Review: Emerging Trends in Codes, Monitoring and Verification," in *Codes Memo*, Number 13, January 2003. <http://www.maquilasolidarity.org/resources/codes/memo13.htm>

- Two, local nongovernmental and labour organizations must play an active role in verifying conditions and have input into corrective actions to ensure that programs are effective both in identifying problems and in finding sustainable solutions.
- Three, non-governmental labour standards monitoring and verifications initiatives must not be seen as a substitute for government enforcement of national labour and environmental laws and regulations, nor commercial or NGO auditing organizations as a substitute for local labour and environmental inspectors. Rather, local ministries and inspectors must receive increased support and training, along with local labour, environmental and civil society organizations.
- Four, government should encourage greater public scrutiny of voluntary labour and environmental standards monitoring and verification initiatives by adopting policies that encourage and require greater transparency and corporate accountability on what Canadian companies are doing to ensure that minimum international labour, environmental and human rights standards are being met in all their production facilities.

■ **Some policy options that would complement voluntary initiatives**

No one policy, voluntary or regulatory, will adequately address the problem of worker rights violations in either the global garment industry or the extractive industries. A combination of governmental regulations and incentives and voluntary initiatives will be needed to adequately address systemic problems.

Legal Reporting Requirements

Large public and private companies in Canada should be required, as part of their corporate-law reporting requirements, to produce annual social and environmental accountability reports. Such reports should include both information on the processes for ensuring compliance with ILO core conventions, as well as the appropriate standards in the fields of environmental and human rights, and the findings of audits and corrective action taken.

Procurement Policy

The government should adopt an ethical procurement policy for all federal government departments, institutions and agencies that gives preference in the purchase of goods

and raw materials to companies that provide transparent annual public reports, or participate in multi-stakeholder initiatives that provide such reports, on their processes and performance in ensuring compliance with ILO conventions, UN Declarations and environmental standards throughout their supply chains and/or operations.

Social/environmental criteria and government support

The government should adopt labour standards performance and reporting criteria for the granting of government loans, grants, overseas investment insurance or other benefits tied to overseas investment by Canadian companies. Only companies that provide independently-verified annual transparent public reports on their processes and performance in ensuring compliance with ILO conventions and international human rights and environmental standards in their wholly owned facilities and supply chains should be given trade and investment support, including support from the Export Development Corporation (EDC), Program for Export Market Development (PEMD) or the Canadian International Development Agency (CIDA). The government should also provide public access to information on all forms of public support to Canadian companies related to foreign investment or offshore sourcing. Lastly, the Canadian government should insist on stronger human rights and environmental standards and criteria in World Bank policies and programs.

Capacity building

Through CIDA and CIDA support channelled through Canadian non-governmental organizations, the government should provide increased support for capacity building for southern civil society organizations, labour, human rights and environmental organizations and ministry of labour and environment inspectors, so they can more effectively monitor and enforce national laws and effectively engage with voluntary code monitoring and verification initiatives, as well as for worker rights training for local workers and management personnel by reputable southern human rights, women's and labour organizations.

Trade agreements

In the negotiation of bilateral and regional trade agreements with developing countries producing products and raw materials for export to Canada, the government should adopt proposals that link the reduction or elimination of tariffs with progress in achieving compliance with ILO Conventions and international human rights and environmental standards. Such proposals could also include provisions for development assistance to increase the capacity of governments to monitor and enforce national labour and environmental laws, and for local non-governmental, labour and environmental organizations to monitor compliance with standards.

As noted above, a good example of such a trade agreement was the US-Cambodia Textile Agreement. That agreement offered increased market access for Cambodian textile products in exchange for efforts to comply with international labour standards. Compliance has been monitored by the International Labour Organization (ILO), and its progress reports continue to be available to the public.¹⁹

■ Conclusion

Canada has an international reputation as a country committed to social justice and the realization of internationally recognized rights and standards, not only in our own country, but also around the world. At the same time, Canadian companies and the Canadian government lag far behind other companies and governments in the concrete application of these values and principles, particularly on the question of worker rights. ETAG urges Canadian companies and the Canadian government to move beyond the denial stage and engage with faith, labour, student and nongovernmental organizations in seeking practical solutions to these systemic problems. If we fail to act, Canada's brand reputation will be tarnished by its poor performance.

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¹⁹ "ILO's mixed report on working conditions in Cambodian garment industry," ILO press release, April 2002.