

## Our Ethical Trading Approach

Supporting decent labour standards in Tesco's supply chain

### Background

Our strong belief is that a sustainable business needs a sustainable supply chain, one which is underpinned by fair working conditions for all those involved in the manufacture and supply of our products. As founding members of the Ethical Trading Initiative, we have been active in this area since 1998. We support our suppliers to comply with the ETI Base Code and seek to use our scale for good, helping suppliers to improve and adding our weight to collaborative initiatives which improve conditions for workers.

### Our approach

Tesco's ethical trading programme is a core element of our promise to buy and sell our products responsibly. Our customers want to know that everything they buy is produced under decent conditions, and everyone involved is treated fairly.

Ethical Trade is fully integrated within Tesco's operations, forming a key part of our broader strategy for corporate responsibility. Its objectives and activities are delivered by a wide range of commercial staff, overseen by a specialist ethical trading team including dedicated local staff in key supplying countries.

Our approach is based on four pillars:

- 1) **Values** - ensuring we work with suppliers who share our values
- 2) **Monitoring** - getting to the truth about conditions for workers in our supply chains
- 3) **Improvement** - supporting our suppliers to improve
- 4) **Transparency** - being open and honest, working with others

The programme extends to everything we source for our own-label including Tesco-exclusive brands in UK stores, services and goods not for re-sale to customers. Given our growing



international business, we continue to strengthen our ethical trade systems for countries in which we operate outside the UK.

## The ETI Base Code

We are a founder member of the Ethical Trading Initiative (ETI) and expect all of our suppliers to apply the standards set out under the ETI Base Code and ensure their workers the rights within it. For more information see [www.ethicaltrade.org](http://www.ethicaltrade.org)

We recognise that our suppliers in some countries face significant challenges in meeting all the standards set out in the ETI Base Code in full. We want to help our suppliers, wherever they are based, achieve the high standards that we expect. To do this we balance our efforts on monitoring with help for suppliers and workers to address entrenched problems and improve conditions. However, we stand behind our policy on ethics – our commitment to our customers and to the workers in our supply chain – and this means that we discontinue business with suppliers who fail to demonstrate the necessary commitment or improvement.

## Values

The first of the four principles of our ethical trade programme focuses on selecting suppliers who share our values and ensuring that we retain them. Our work under ‘Values’ is organised around three key themes: ‘Communicate our values’, ‘Set Strong Standards’ and ‘Approve New Suppliers’.

### a) Communicate our Values

Our Values focus on two main areas; how we ensure we meet the needs of our customers, and how we work with others. Since the launch of our ethical trading programme in 1998, we have worked hard to ensure that these Values are reflected in all aspects of our Ethical Trade programme. Our core company value of “*treating people how we like to be treated*” is, of course, central to how we expect workers to be treated.



## b) Set strong standards

Setting, communicating and enforcing strong standards is a cornerstone of our ethical trade programme. We will only work with suppliers who share our values and can demonstrate commitment to the ETI base code.

In practice we promote Tesco's commitment to ethical trading in a number of ways throughout our business and to our suppliers:

- Tesco commercial personnel involved in sourcing products are trained to understand the Tesco approach and ways of working.
- All our suppliers receive a practical, accessible Tesco ethical trading requirements document so they can be clear on our programme and expectations.
- All suppliers receive a 'Supplier Starter Pack', a user-friendly guide on our requirements and processes in relation to Ethical Trading. Supplementing the Code of Practice, it pulls together all the pertinent information into a single focused document.

These standards are implemented by Tesco Buyers and Technical Managers supported by Central and in-country Ethical Trade Teams, all of whom are formally trained on and supported by robust policies and procedures covering our ethical trade practices.

## c) Approving new suppliers

All potential new suppliers are evaluated to ensure that they understand the standards we require and have the ability to meet them. In practice this means that all new suppliers are risk-assessed before supply begins, with appropriate action being taken to resolve any serious issues prior to commencing supply. We will not work with a supplier if we identify major problems at this initial screening stage and cannot resolve them.



## Monitoring

The second pillar of our ethical trading programme is monitoring. Monitoring helps identify issues in the supply chain on which we and our suppliers must focus.

### a) Assessing risk

All sites which supply directly to Tesco are risk-assessed in relation to ethical standards before supply begins.

SEDEX ([www.sedex.org.uk](http://www.sedex.org.uk)) is a powerful tool in this process, containing information on each supplier site across several hundred criteria ranging from geographical location and sector, to workforce gender and the proportion of temporary workers. Information from SEDEX supplemented by insights from on-going dialogue with a range of external partners including NGOs, Trade Unions and the ETI, helps us assess risk and determine supplier audit requirements.

Regular visits by our own staff help us better understand the broader context of the challenges our suppliers and their workers face.

Sites are monitored according to their risk rating. High-risk supplier sites are subject to annual ethical audits, medium risk sites are audited once every two years, and low-risk sites are required to review their self-assessments every six months.

### b) Audit and report accurately

Ethical audits are conducted in accordance with SMETA (SEDEX Members Ethical Trade Audit) guidelines. SMETA, a SEDEX initiative, helps consumer brands and their suppliers reduce duplication and ensure better quality auditing by setting out a robust methodology and a common format for the audit report and its corresponding corrective action plan.

Audits are conducted by specialists who are recognised as competent to audit and interview workers in their own languages. The size and composition of the audit team and duration of the audit are tailored to the supplier/site, and reflect the gender profile of the workforce and the main languages spoken.



During the closing meeting all non-compliances are discussed and a Corrective Action Plan Report (CAPR) agreed between the Supplier and the auditor. If any critical non-compliances are found, the Audit Company will notify Tesco directly. They will also inform Tesco of any issues that the supplier refused to acknowledge or that could not be verified. Any attempt to pervert the course of the audit through fraud, coercion, deception or interference is treated as a critical non-compliance and reported to Tesco.

Following the audit suppliers are required to resolve all corrective actions identified in the audit report, addressing non-compliances with the ETI Base Code and local law. The supplier is responsible for completing all corrective actions on the CAPR within agreed timescales, and for obtaining verification of closure from the independent auditors — normally within six months. The whole process — from planning through supplier completion to final auditor verification — is tracked through SEDEX, enabling our Commercial teams to have real-time oversight of progress and take action where necessary.

### c) Announced and semi-announced audits

Announcing the date of audits to suppliers in advance helps ensure that all necessary records are present for inspection during the audit, and helps build ownership of ethical issues by the supplier's management team. This practice does however present an opportunity for some suppliers to prepare sites and coach workers prior to an audit in an attempt to manipulate findings.

To address this risk we operate 'semi-announced' audits for all high risk sites supplying our UK Business, a process where suppliers are given a one-month window during which the audit will take place as opposed to an exact date. This ensures that the relevant records are present on site, but that there is less chance for advance preparation.

In addition, unannounced audits of sites across a range of risk profiles allow us to cross-check our main audit findings, and validate our broader audit and risk assessment process.

In some cases the unannounced audits re-confirmed the findings of earlier announced or semi-announced audits, whereas in other instances additional issues were identified which were then subject to the normal improvement process.



#### d) Auditor Recognition Programme

Maintaining the quality of audits across our supply chain is vital in ensuring we identify the issues and support our suppliers in addressing them. A key element of this is our Auditor Recognition Programme (ARP) under which a tight group of audit bodies, schemes and individual auditors are approved to audit sites supplying Tesco. In some key sourcing countries we operate an “approved” auditor system, where every auditor has had additional training and assessment by Tesco before being allowed to audit on our behalf.

Their on-going performance is monitored through a process of quarterly reviews, including complaint investigations and witnessed audits.

#### e) Understand workers

Gathering information through workers about workplace concerns is a powerful adjunct to intelligence gathered through other routes including 3rd-party audits, participatory interviews and links with local stakeholders on the ground. Recognising the importance of good workplace communication and the benefits of resolving workers concerns before they escalate, we have worked with South African partners, Harvard University and the UN Special Representative on Business and Human Rights to pilot principles which could underpin a robust and effective grievance mechanism. This pilot has seen business, Government, NGOs and Trade Unions work together as part of the project’s Oversight Stakeholder Body.

We piloted a farm-level grievance mechanism which gave over 3,000 workers the opportunity to voice their concerns and know that these concerns will be listened to and acted upon.

This work has also supported wider learning. In March 2011 the UN Special Representative on Business and Human Rights, Professor John Ruggie, presented a new global framework on the duties of states and companies for human rights. This framework included guidance on grievance mechanisms that have been tested against, and refined in the light of, Tesco’s South Africa pilot and pilots with three other companies globally.



#### f) Response to allegations

In addition to reports by independent auditors and visits from our own staff, breaches of the ETI Base Code — or related concerns — can also be reported by suppliers themselves, workers, NGOs and trade unions. We investigate any such reports immediately and are happy to provide confidentiality for complainants where requested.

In addition, our expanding team of in-country ethical trade managers is increasing our ability to find out about local concerns, through dialogue with a range of stakeholders. They will investigate any issues of concern.

Internally we also provide a dedicated, confidential helpline for any staff concerned about ethical trade issues — whether about the actions of Tesco staff in their relationships with suppliers, or events at one of our supplier's workplaces — and investigate any reports.

#### g) Identify trends

The identification of trends is an important element of ensuring we focus our resources towards areas which present the greatest risk in terms of code compliance, and where our efforts can achieve the greatest leverage, delivering the best results.

Given the dynamic nature of supply chains and the impact of socio-economic, political and environmental impacts on labour standards in our supply base and associated local communities, our programme is subject to regular review to ensure its focus remains appropriate.

### Improvement

The third of the four pillars of our ethical trade programme focuses on Improvement. Our work under this pillar is the most important as the process of monitoring does not by itself drive improvement that is sustainable in the longer term, only serving to flag up issues that require further focus and attention.



We require all breaches of the ETI Base Code and/or local law at our suppliers' sites to be corrected.

The method of verifying these breaches is determined either by the audit company or our own ethical specialists on a case-by-case basis, depending on what is needed to be confident the improvement action has been carried out. This may involve a follow-up verification audit or site visit.

## Structural Safety and Fire Safety in Bangladesh

The structural safety of buildings and the protection of workers in the event of a fire are major issues of concern following the recent tragedies in Bangladesh in which my workers lost their lives. While none of our suppliers were involved, we view it as our responsibility to ensure the high standards are maintained across our sites and we lend our weight and support to initiatives which improve standards for garment workers across all sites in Bangladesh.

We have 54 people in Dhaka whose job is to support and help to improve standards at the 60 garment factories we work with. We try to build relationships with our supplier so that we can earn each other's trust. We have commissioned and paid for structural checks on all the factories we work with in Bangladesh using qualified engineers.. We are also members of the multi-stakeholder Accord on Fire and Building Safety, which is inspecting around 1700 factories for structural, fire and electrical safety, working together to improve standards.. The Accord is a strong programme with other leading retailers and global unions, with chaired by the UN International Labour Organisation.

We also want to ensure we are going further and faster with our own supply chain, where our reach and responsibility is greatest, so we also published our own commitments about how we will do that, including some changes we've already made over the last 12 months. They are based on the principles of safety, partnership, transparency and improvement and apply to all factories (not just garment makers) we work with in Bangladesh, complementing the Accord principles.

For detail of these commitments and our latest work, please see our website - <https://www.tescopl.com/talkingshop/index.asp?blogid=114>.



#### a) Build long, strong relationships

We know that our best supplier partners tend to be well run, profitable enterprises with strongly embedded practices that respect and engage their workforce. Recognising this fact, we have invested significant effort in engaging with suppliers in key regions through audit and training to help them improve their management capacity, capability and productivity, delivering commercial benefits which support their continued investment in improving their businesses.

Each year we conduct training sessions for our suppliers on how best to address common non-compliances, improve communications between workers and management, and improve productivity.

#### b) Develop skills

Supplier Training is an important element of Tesco's Ethical Trade Strategy. It is delivered in-country direct to groups of suppliers by Tesco Ethical Trading Managers supplemented where necessary by external subject matter experts. Wherever possible, Tesco Commercial and Technical staff are also in attendance so that any questions relating to the more general business and its impact on Ethical Trading can be answered. A one-day workshop format is used to communicate Tesco's expectations and includes a focus on specific challenges relevant to the suppliers attending, covering issues such as migrant labour or working hours.

These sessions also provide an opportunity for Suppliers to feedback views on a confidential basis in the absence of Tesco personnel under the 'Do more, do less, do different' programme. Supplier feedback is collated and anonymised before being fed back to Tesco, and is a useful adjunct to our annual strategic review.

The training of Tesco staff in Ethical Trading is important in ensuring that those in operational roles with a direct supplier interface are properly equipped both to execute our Ethical Trade policy, and support suppliers in ensuring labour standards are respected. Functions currently included in training include all buying and technical staff across Food, General Merchandise, Group Procurement and our International Businesses.



We have an in-house expert approved by Sedex to deliver Risk Report Training. We deliver training to staff across the business, ensuring they are properly equipped to interrogate Sedex and effectively manage all ethical aspects of new and ongoing supplier relationships.

Ethical Champions are also important in embedding ethical trade knowledge, practices and decision making within commercial teams.

### c) Preferred Supplier Schemes: 'Gold / Silver / Bronze' suppliers

Our 'Preferred Supplier Scheme' has proven successful in motivating suppliers to focus on our ethical requirements, whilst providing our Buying Teams with the tools they need to support and develop relationships with suppliers that are committed to meeting the standards we expect.

Good ethical performance is a pre-requisite to be considered for 'Gold' status, along with consistent product quality and reliability. Gold suppliers agree three-year projections with Tesco to enable them to plan their businesses, labour needs and plans for employee remuneration more effectively over the long-term, and benefit from higher volumes of trade. For suppliers who continue to underperform, the same process is used to reduce levels of business, or in certain cases terminate business.

## Transparency

The final pillar of our ethical trading programme is transparency. This is essential both to maintain customer and stakeholder confidence in our work, and to enable effective collaboration and convergence with other retailers, suppliers and civil society.

We source in over 70 countries today and we want to be the partner of choice in every one. We are investing in the skills and insights to create transparency and respond to changing markets. For example, the Tesco Producer Network launched in June 2012 and now has over 700 members worldwide in our fresh produce supply chain alone. Members join, and often lead, seminars and online discussions in which producers share knowledge and solutions to enhance quality, access more markets and resolve production challenges – as well as sharing



insights from Tesco on customer trends and developments in our business to improve efficiency.

#### a) 'Work with others and Build Awareness'

As a significant player in the multiple retail sector, we seek to use our scale for good. A fundamental aim of our strategy on ethical trading is to drive convergence of international approaches to monitoring and remediation which otherwise remain fragmented, resulting in unnecessary duplication and wasted effort for both retailers, suppliers and other stakeholders. We seek to achieve this through the most appropriate formal and informal groupings, supporting those which are most likely to drive and deliver sustained improvement in approaches and working conditions.

We are an active participant in a range of different ethical trade fora, both in the UK and Internationally.

In the UK we work closely with the ETI Food Group, ETI General Merchandise Group, The Gangmasters Licensing Authority (GLA), and the Equality and Human Rights Commission. We continue to play a leading role in the development of Supplier Ethical Data Exchange (SEDEX).

At an international level we continued our work with the GSCP (Global Social Compliance Programme), a work stream of the Consumer Goods Forum, aimed to driving convergence on best-practice on Ethical Trade across international supply chains.

At a local level we work closely with both sector and country-specific fora through in-country Ethical Trade Managers embedded within our local sourcing hubs. Based in key supply countries where suppliers and workers face significant and persistent challenges in meeting the ETI Base Code, their role is to work closely with our supply chain to understand the challenges and identify what assistance and resources will be needed to support sustained improvement in conditions for workers.

In addition to helping co-ordinate our interface with key in-country initiatives, our local Ethical Trade Managers help support suppliers facing entrenched problems develop robust



and sustainable solutions, either on an individual basis or through collaborative sector or issue-specific groups.

In the Indian sub-continent and supported by our local Ethical Trade Manager, we have worked closely with The National Home workers Group, the Bangladesh Buyers Forum, the Indian Brands Ethics Working Group, the Apparel Exporter Promotion Council and SEWA (the Self-Employed Women's Association).

Through our local Ethical Trade Manager in South Africa we have established an Ethical Steering group with membership drawn from key exporters, audit bodies and industry associations. It meets on a monthly basis to review discuss and inform Tesco's Ethical Trade strategy in South Africa.

#### b) Public reporting

Each year Tesco provides an update on its ethical trade programme as part of its broader Corporate Responsibility Report a condensed version of our more detailed report for the Ethical Trading Initiative.

#### c) Supplier transparency

All suppliers to Tesco are required to be transparent about their ethical trade status and performance. This begins with the requirement to register full details of their workforce, sector, gender balance and other issues on the Supplier Ethical Data Exchange (SEDEX), and continues with the requirement for all ethical audits and records of remediation to be loaded on to SEDEX where they can be viewed by any retailer sourcing from that supplier.

Our ethical trading training courses for suppliers are designed to enable them to share the challenges they face and examples of good practice in finding solutions. By way of example, our Workshops with UK food and agriculture suppliers and their agency labour providers enabled suppliers to compare notes on common problems and talk about what has worked well in addressing them. We support this process with our own knowledge and with the input of our expert presenters, many of them external.



We also run more general supplier conferences across different categories and countries in which we operate. These frequently cover ethical trade priorities, and enable both suppliers and Tesco staff to discuss challenges and potential solutions.

### The future

In the years ahead we will continue to further develop and refocus our ethical trading programme, targeting our support for suppliers facing challenges to improve using intelligence gathered through Sedex and our global dialogue with key stakeholder groups.

We will continue to develop and implement tailored strategies to address some of the most entrenched challenges our suppliers face, with particular focus on how best to improve productivity and wages in parts of South Asia, and strengthen worker representation as a means to improve conditions across the range of labour standards challenges.