

INVESTOR BRIEF:

How are Canadian companies addressing safety risks in Bangladesh apparel factories?



National Garment Workers Federation, Bangladesh.

Introduction

Two years have passed since the worst industrial disaster in the global apparel industry took the lives of more than 1,100 workers and injured thousands more. When the Rana Plaza building collapsed on April 24, 2013, crushing the workers trapped inside, the world became acutely aware of the widespread lack of fire and building safety measures in a country which had become a major sourcing hub for global apparel companies – including well-known Canadian retailers and brands.

In the aftermath of the disaster, a large number of global apparel companies signed a binding accord with Bangladeshi and international trade union organizations to establish a program of comprehensive, independent building inspections, worker and management training, public accountability measures, and support for suppliers and workers in the transition to safer factories. The Accord for Fire and Building Safety in Bangladesh (“the Accord”) now boasts more than 200 global signatory companies including two from Canada.¹

An alternative, company-led initiative, the Alliance for Bangladesh Worker Safety (“the Alliance”), was established by other American and Canadian retailers and brands. Its 26 members have established their own system of factory inspections, remediation, training and financial support for Bangladeshi suppliers.²

While the response to both initiatives has been unprecedented, not every company sourcing apparel in Bangladesh has joined with these programs and not every Bangladeshi factory being used by brands or retailers is covered by one or both of the inspection regimes.

Two years later, investors in publicly-traded apparel companies should be able to expect that the companies in which they invest have taken steps to address the now-well-established risk of unsafe factories and working conditions in their global supply chains, especially in Bangladesh. This investor brief looks at publicly-traded apparel companies in Canada to determine what those companies have reported publicly about their post-Rana Plaza efforts.

Why is the issue important to investors?

Investors in apparel companies have long paid attention to the risks inherent in global sourcing practices, and these risks are often laid out in the corporate Annual Information Form and other documents. Risks include not only financial risks like currency fluctuations, trade preferences and tariffs, shipping disruptions and natural disasters, but also risks related to local legal compliance, environmental practices, foreign corrupt practices, and reputational factors such as negative publicity related to poor labour practices at supplier factories.

An Ipsos-Reid poll conducted a year after the Rana Plaza disaster showed that 70% of Canadian consumers were still concerned that the products they buy may have been made in an unsafe building. 82% were more willing to buy from Canadian retailers that had signed the Bangladesh Accord, and 14% admitted to boycotting certain brands or companies. These results suggest that poor management of labour and environmental risks in global supply chains can have financial impacts on sales here in Canada, and on the company's longer term value for investors.

What have the Accord and Alliance accomplished?

Over 50,000 safety issues have been identified in inspected factories, including unsafe means of egress, unsafe electrical installations and weak structures.

The Accord reports that it has completed initial inspections of 1250 factories producing for Accord signatories. Inspection reports are available on the Accord's website.³ As of April 2015, Corrective Action Plans have been approved for 683 factories. Over 50,000 safety issues have been identified in inspected factories, including unsafe means of egress, unsafe electrical installations and weak structures. While more common electrical problems have been reported as fixed, more than 550 factories have had to undergo detailed engineering assessments.⁴ The Accord's Field Resource Persons have also been leading a program of worker outreach to raise awareness of workers' rights under the Accord.

In 2014, the Accord recommended to a government-led panel that 19 factories be closed due to severe and imminent structural risks. Another seven factories were jointly submitted to the panel by the Accord and Alliance. Seven remain closed, and the others are partially closed or have undertaken structural repairs or other required mitigation.⁵ In March the Accord announced that another factory has been deemed non-compliant due to severe risks and production by Accord brands suspended. Another thirteen have received warning letters and may soon be suspended for failure to fix serious safety problems.⁶

The Alliance reports that its members have completed inspections of all of the factories they currently use. They report that every factory is "undertaking some form of remediation" and that they are now launching a program to conduct inspections of factories prior to their approval as new suppliers for Alliance member companies. The Alliance reports that more than 100 verification visits have been conducted. Inspection reports are available on the Alliance website.⁷ It also reports that it trained a group of facilitators who rolled out basic worker fire safety training to over 1.2 million workers.⁸ The results of this "train-the-trainers" program have not yet been evaluated.

Neither program has succeeded in establishing worker health and safety committees in all factories, due in part to the Bangladesh government's failure to finalize relevant implementation regulations. Worker-led and accountable health and safety committees are critical to the sustainability of any safety program. They provide timely on-the-ground oversight and response to health and safety risks and involve workers in identifying and correcting hazards before they result in disaster. Despite the government's delay, the Accord is launching a worker health and safety committee pilot program to establish committees in up to 50 factories where it will test its methodology and training materials.

Financing for factory upgrades remains a concern. The Accord, which requires signatories to negotiate terms with suppliers to ensure that remediation is financially feasible, has published guidance for companies to consider in assisting suppliers with financing upgrades.⁹ Methods include direct contributions, providing loans or facilitating access to finance, or negotiating terms of trade that allow the supplier to pay for improvements. The Alliance does not require its members to ensure financial means for remediation.¹⁰ However, it is active on the issue and four Alliance members have created supplier financing mechanisms, either through the provision of loans or changes to factory payment terms. The Alliance reports that "several factories have already received access" to these programs.¹¹

Rana Plaza Donors Trust fund

In addition to preventative measures, companies that source from Bangladesh have all been asked to contribute to the compensation fund managed by the International Labour Organization (ILO), the Rana Plaza Donors Trust Fund.¹² It is estimated that the fund requires a total of US\$30 million to support the victims and their families, many of whom require long-term medical attention and/or who will never be able to work again. Unfortunately, the amount collected so far is only US\$21 million, which leaves a \$9 million shortfall.¹³ While companies that were directly implicated in the Rana Plaza disaster are expected to contribute an appropriate share of the compensation, all companies sourcing in Bangladesh are being asked to make solidarity contributions. As noted below, amongst Canadian companies, only Loblaw has contributed to the fund.¹⁴



What have Canadian publicly-traded apparel companies done since Rana Plaza?

There are seven major publicly-traded apparel companies in Canada that have some production in Bangladesh.

| Company (ticker) | Accord signatory | Alliance member | Donated to Rana Plaza Donors Trust Fund |
|-----------------------------|------------------|-----------------|---|
| Canadian Tire (TSX:CTC) | | ● | |
| Gildan Activewear (TSX:GIL) | | | |
| HBC (TSX:HBC) | | ● | |
| Loblaws (TSX:L) | ● | | ● |
| Lululemon (TSX:LLL) | | | |
| Reitmans (TSX:RET) | | | |
| Sears (TSX:SCC) | | ● | |

Canadian Tire

Canadian Tire, which owns Mark's Work Wearhouse, Sportchek and a number of other banners, is a member of the Alliance. Although it discloses a supplier code of conduct on its website, it reports relatively little on its supply chain compliance programs. With regard to Bangladesh, the company notes that in 2014 all 39 of its supplier factories in Bangladesh were inspected for fire, electrical and structural safety, that remediation work was started, and that over 50,000 workers were trained on fire safety.¹⁵

Gildan Activewear

Gildan Activewear owns and sources exclusively from a single factory in Bangladesh. It is not part of either the Accord or the Alliance. It reports that the factory was renovated for structural safety when they acquired it in 2010. Gildan reports that the facility is inspected annually by safety and loss prevention specialists, which are not named. Gildan also reports that in 2013 there was a worker death at the facility due to electrocution, and that in the aftermath of that event the company instituted mandatory health and safety training for both employees and contractors.¹⁶ Further details on the training are not reported.

HBC

Although it currently lists only two supplier factories in Bangladesh,¹⁷ HBC is a member of the Alliance, and reported that in 2013 its Bangladeshi supplier factories received training in fire prevention and safety and building safety.¹⁸ The content, delivery or recipients of the training were not made clear. The Alliance has posted inspection reports for both of HBC's current supplier factories, as well as corrective action plans for each. There is no indication at present whether the factories have complied with the corrective action plans.

Loblaws

Loblaws (owner of the Joe Fresh brand) was the first Canadian signatory of the Bangladesh Accord. It reports that after the Rana Plaza tragedy it added staff in the country (where it previously had none). Recently, the company updated its supplier code of conduct to include recognition

of workers' right to freedom of association, and has added staff in Asia to assist with labour standards compliance. Loblaws is the only Canadian company to have contributed to the Rana Plaza Trust Fund, in the amount of US\$3,370,620,¹⁹ and it participates in the Coordinating Committee of the Fund.²⁰

Lululemon

Lululemon reports that it currently sources goods from two factories in Bangladesh. The company has not joined either the Accord or the Alliance, but says that its current Vendor Code of Conduct and factory inspections address fire and building safety.²¹ The publicly-available version of the Code requires compliance with applicable fire safety regulations but does not include standards on building safety.²²

Reitmans

Reitmans does source goods in Bangladesh but has not joined either the Accord or the Alliance. Its website lists a supplier code of conduct but the code does not address building structural integrity.²³ The company has not reported any data publicly on labour standards compliance in its supply chain in Bangladesh or elsewhere.

Sears Canada

Sears Canada is a member of the Alliance through its US parent company, Sears Holdings Ltd.. Sears USA has been linked to factories which suffered fatal fire incidents including the infamous Tazreen factory fire that killed at least 112 workers in November, 2012. According to international labour rights organizations, to date Sears USA has failed to compensate the victims of the Tazreen fire. Sears says production at the factory was unauthorized.

Responsible supply chains

Oversight of risks in global supply chains is primarily the responsibility of company management, who must ensure that risks are identified and mitigated appropriately. Because of the complex nature of supply chains and the multitude of actors involved (e.g. sourcing agents, suppliers, factory management, workers, other buyers, governments, etc) investors can gain increased reassurance from programs like the Accord that offer independent inspection and assurance as well as accountability mechanisms, especially in countries where governance and public inspection regimes are weak, corruption is high, and trade union density is low.

In addition to involvement in safety programs like the Accord or the Alliance which are specific to Bangladesh and only address specific safety concerns in that country, investors should look for companies to report more broadly on the steps they take to identify and mitigate risks in their supply chains. Best practices include supply chain transparency (i.e. publishing factory lists, as HBC did last year), publishing regular data on key performance indicators related to worker rights and sustainability in supply chains, and commitment to assessing and addressing the root causes of persistent non-compliance in supplier factories, including the company's own sourcing and pricing practices.

Key questions for investors to ask

Investors in companies that source apparel in Bangladesh should seek assurances that the company is effectively managing its risks and ensuring the safety and well-being of workers that manufacture its products. The most robust way to achieve this is to become a member of the Accord or the Alliance. For investors, the strict independence of the Accord's inspection regime and its accountability mechanisms provide added assurance that safety goals will be met.

The sheer volume of safety issues identified by Accord and Alliance inspections suggests that no company is immune from the risk of yet another terrible disaster occurring in a Bangladeshi supplier factory, especially for companies that are not taking part in either inspection program. The collapse of a cement factory in March, 2015, which killed four workers and injured dozens more is a reminder of the potential for disaster if adequate oversight is not in place in Bangladesh. Also, given that the risk of large-scale factory disasters in Bangladesh was well-known but not sufficiently addressed by standard company social auditing programs prior to Rana Plaza, there may be substantial un-addressed risks in other sourcing countries as well.

Beyond asking that the company join a credible collaborative initiative to identify and mitigate safety risks in Bangladeshi factories, as outlined here, investors should be asking companies about their progress in achieving full remediation of safety issues within all of the supplier factories they use to manufacture their products. Specifically, they should be asked:

- a. How is the company supporting remediation within their supplier factories and ensuring that suppliers have financial means to implement factory upgrades in a timely way?
- b. Is the company maintaining long-term relationships with suppliers?

- c. What is the company doing to ensure workers are able to democratically elect worker health and safety committees in every factory they use?
- d. Has the company contributed to the Rana Plaza Donors Trust Fund, and if so, how much has it contributed? If not, will it contribute to assist the victims of that preventable tragedy?
- e. How has the company altered its risk assessment, social compliance and sourcing policies and practices in other countries to ensure that persistent risks in those countries are being identified and addressed?

About SHARE

SHARE (Shareholder Association for Research and Education) is a leader in responsible investment services for Canadian institutional investors. SHARE advises institutional investors on the development and implementation of responsible investment practices. Created in 2000, SHARE provides proxy voting advice, facilitates shareholder engagement, and delivers education and practical research on emerging responsible investment issues.

SHARE has been engaging Canadian companies on their management of health and safety risks for workers in their Bangladeshi supplier factories, as well as their supply chain labour policies and practices globally. We engage companies on behalf of Canadian investors with more than \$14 billion in assets under management.

Disclaimer

This publication is for information purposes only. It does not constitute investment advice or an offer to invest and is subject to correction, completion and amendment without notice.

¹ See <http://www.bangladeshaccord.org>. Only one of the Canadian signatories, Loblaw, is publicly-traded and therefore reviewed in this report.

² See <http://www.bangladeshworkersafety.org>

³ <http://accord.fairfactories.org/ffcweb/Web/ManageSuppliersInspectionReportsEnglish.aspx>

⁴ http://bangladeshaccord.org/wp-content/uploads/ACCORD_Quarterly_Report_February_2015.pdf

⁵ <http://bangladeshaccord.org/factories/review-panel-cases>

⁶ <http://newagebd.net/103912/eu-buyers-disqualify-1-rmg-factory-warn-13-more>

⁷ <http://www.bangladeshworkersafety.org/factory-list-inspection-reports>

⁸ <http://www.bangladeshworkersafety.org/files/Alliance%2018%20Month%20Report%20FINAL.pdf>

⁹ <http://bangladeshaccord.org/wp-content/uploads/Financing-Remediation-Guidance.pdf>

¹⁰ <http://www.bangladeshworkersafety.org/files/Alliance-Member-Agreement-FINAL.pdf>

¹¹ <http://www.bangladeshworkersafety.org/files/Alliance%2018%20Month%20Report%20FINAL.pdf>

¹² <http://www.ranaplaza-arrangement.org/fund>

¹³ http://oecdwatch.org/publications-en/Publication_4178

¹⁴ <http://www.ranaplaza-arrangement.org/fund/donors/donors>

¹⁵ <http://corp.canadiantire.ca/EN/Investors/Documents/2014%20Annual%20Report-EN.pdf>

¹⁶ <http://www.genuinegildan.com/en/people/working-conditions/health-safety>

¹⁷ HBC is one of the only Canadian publicly-traded apparel companies to provide a list of its global suppliers, a key request of many responsible investors. See <http://www3.hbc.com/hbc/socialresponsibility/hbc-manufacturing-list>

¹⁸ http://www3.hbc.com/wp-content/uploads/2014/06/HBC_2013_CSRREPORT_PROOF22.pdf

¹⁹ <http://www.ranaplaza-arrangement.org/fund/donors/donors>

²⁰ <http://www.ranaplaza-arrangement.org/mou/governance>

²¹ <http://sustainability.lululemon.com/wp-content/uploads/2014/04/Bangladesh-for-website-April-25-FINAL.pdf>

²² http://sustainability.lululemon.com/wp-content/uploads/2014/04/lululemon_vendorCoE_English1.pdf

²³ http://www.reitmans.ca/ethical/code_of_conduct.pdf

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