

Arcadia Group Limited

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17 July 2008

Dear Martin

I am writing to you in reply to your e-mail to Derek Mackay of 14 May 2008 regarding our Let's Clean Up Fashion 2008 submission. We note your intention to focus solely on the living wage.

A living wage can be described as enabling workers to meet their needs for nutritious food and clean water, shelter, clothes, education, health care and transport, as well as allowing for a level of discretionary income. Earnings should be enough to provide for the basic needs of workers and their families, to allow them to participate fully in society and live with dignity. Their earnings - including all benefits such as accommodation, food, transport and medical services - should take into account the cost of living, social security benefits and the relative standards of other groups.

We are carrying out a number of projects in our supply chain, across geographical areas, to determine:

- whether a 'living wage' can be established;
- if there is a gap between current earnings and a 'living wage';
- how any gap could be filled, ensuring it reliably reaches the workers;
- what the implications might be on margins and customer prices; and
- whether the results can be used throughout other parts of the Group's supply base.

You asked us to comment on the following.

1. *What your position is on living wage for all workers in your supply chain, including piece rate, subcontracted, informal and home workers.*
2. *Concrete steps you have taken so far to implement the living wage throughout your supply chains.*
3. *Plans to continue to do so in the future, including the timeline for this.*
4. *Any corrections or clarifications you think are necessary to your profile in LCUF 2007.*

Our submission is noted below.

1. What your position is on living wage for all workers in your supply chain, including piece rate, subcontracted, informal and home workers.

The Arcadia Group Code of Conduct, which is the same as the ETI Base Code, states the following.

Living wages are paid

Wages and benefits paid for a standard working week meet, at a minimum, national legal standards or industry benchmark standards, whichever is higher. In any event wages should always be enough to meet basic needs and to provide some discretionary income.

The Arcadia Group accepts that progress is needed on wages in some parts of the world, and supports the principle of a living wage. The difficulty is how to measure it. Until there is a universally agreed alternative, we rely on a solid benchmark specified by an ILO Convention, and that is the minimum wage set by law in the appropriate country, or local industry benchmark standards.

As the recent LBL postcard campaign indicates, this is a complex topic, which many other organisations are also finding. Among the practical points with the implementation of the living wage is that many factories work for different Brands. The living wage issue also faces the challenge where in a global supply chain a living wage in one country can be significantly lower than in another.

There are few success stories in establishing and then implementing a living wage. Arcadia intends to determine through specific pieces of work whether tangible and scaleable progress can be made on the living wage debate.

Through our project work we expect to:

- gain a sound knowledge of current wage rates and benefits in the project areas;
- establish, if possible, a method for calculating a living wage in the project areas; and
- establish if a gap exists between a living wage and actual earnings, including all benefits.

Once this phase of work is complete we will examine the results and determine the appropriate action.

2. Concrete steps you have taken so far to implement the living wage throughout your supply chains.

We have initiated projects in Bangladesh, Mauritius and Africa. These projects will allow us to conduct an investigation on the national minimum wage, the actual wage and other benefits of workers in factories producing goods for the Arcadia Group, and the industry benchmark standard where applicable.

We hope to understand a living wage through reference to the 'basket of goods'.

Bangladesh project

Working together with Next plc, we have identified a shared factory in Bangladesh where we plan to carry out an extensive wage study.

We will do this through the gathering of detailed information on current wage rates, including benefits, and after deductions. We will consider all supply chain costs, including the level of automation in the selected factory, and opportunities to offset any increased labour costs in order to assure sustainability.

Mauritius project

We have started a project in Mauritius in conjunction with Next plc. This builds on the work already undertaken in Mauritius over the last twelve months, primarily focussed on migrant workers. We intend to have further engagement with manufacturers, industry bodies and government departments to conduct an investigation into the national minimum wage, the actual wage of workers in our factories - including benefits and after deductions - and the industry benchmark standard where applicable. As mentioned above, we hope to understand a living wage through reference to the 'basket of goods'.

Through work with a supplier shared with Next in Mauritius, a piece rate system was introduced in January 2008. The initial findings for the first five months of this year compared with the same period last year show that this has had the effect of improving earnings for an average worker by at least 38%. No worker was penalised by this new payment method, since their time rate earnings were protected.

Further, the way in which the migrant workers were recruited has been reviewed, with significant changes to the recruitment cost structure. Historically, migrant workers had to pay fees to the Recruiting Agent in their home country, in addition to many other charges. Following a complete review of hiring practices and contracts, the supplier will now pay the Recruiting Agent fees, and the only costs to be borne by a new worker from Bangladesh, for example, are a) passport, b) medical expenses and c) Advance Income Tax.

We are now developing guidelines for our suppliers on employing migrant workers, including recruitment and working conditions.

Africa project

Two years ago, Topshop started sourcing Fairtrade products. This developed into Topshop and Topman's Empowerment Programme in Africa which has since gathered momentum. The programme embraces a wide range of different projects that share the same intent: to improve the lives of producers,

communities and craftspeople in Africa through sustainable trade. The aim is not to take a short-term view with charity but to support the development of meaningful businesses. The product has to stand against the mainstream offer, so it has to be as fashionable and commercial as anything else the brands sell.

Topshop travelled to Africa to visit Fairtrade accredited farmers and found out what impact the scheme has had on the lives of local people. Farmers in their first year of accreditation were still at subsistence level. Those in their second year had built a school while those three years on were focusing on medical training facilities and had bought bikes to get around on.

Topshop now sells pieces made from Fairtrade cotton across its denim and jersey departments and has four suppliers who are accredited. Topman has also added Fairtrade product to its offer.

Recently, a Malian cotton farmer, Maka, marked this year's Fairtrade Fortnight with a trip to Topshop in London to talk to the team who buy his cotton and turn it into t-shirts. Fairtrade means Maka receives nearly twice as much for his crop as he did before accreditation. He and the other farmers have put the extra funds to good use over the last three years. In 2005 the school's straw hut was transformed into proper cement-built classrooms. The farmers approached the Malian government, who matched the money provided by Fairtrade. Today the school has 210 pupils. A new road to make the village more accessible, a new well providing clean water, storage for the farmers' grain and an adult literacy centre are also results of the Fairtrade premium. Future premiums are likely to be spent on an electric mill to grind the grain, electricity to power it and improved maternity care in the village.

On one of their trips to Africa Topshop visited Cristina Criscilino, founder of Kenyan jewellery producer Made. Former buyer Cristina had linked up with tribal craftsmen and helped them to produce fashionable items that would appeal to a Western consumer. Since starting to work with Topshop, Made has produced jewellery, belts and bags. In the two years that they have been working with Topshop, Made has been able to relocate its workers to a new base outside Kibera. Internal fundraising at head office has helped, raising enough money for a car that ferries the workers to and from work.

We intend establishing if the charities involved in these countries have determined a living wage, and if so, how they apply it.

3. Plans to continue to do so in the future, including the timeline for this.

We understand the importance of this issue and consult widely to assess options and solutions to the living wage debate, which can be implemented in a sustainable manner. We would actively appreciate any further recommendations on solutions from bodies such as LBL and other leading NGOs and retailers on this challenging matter.

We acknowledge that the living wage is at the forefront of ethical debate and discussion. Our next steps are dependent on the results of our three current projects, described above. These are expected to run for up to a year but we will review progress, and any developments from other sources, during the course of this period in order that we may accelerate it.

4. Any corrections or clarifications you think are necessary to your profile in LCUF 2007.

There are no corrections or clarifications needed.

Thank you for the opportunity to contribute to LBL's Annual Report. We believe that we are continuing to make progress in implementing our Ethical Sourcing policy and programmes, and would be pleased to meet you again to discuss the wider aspects of these developments, and how they might be improved.

Yours sincerely

Alda Andreotti FCILT
Supply Chain Director