

Dear Martin

Thank you for your request for information regarding Asda's Ethical Trading programme of work. Organisations such as Labour Behind the Label have a valuable role to play in creating a space for social dialogue, and in challenging current thinking in the area of supply chain labour standards.

Specifically, you had questions regarding Asda's position on wages paid to workers in supply chains. You asked us to outline the following for you:

- Asda's position on living wages for all workers in our supply chain, including piece rate, subcontracted, informal and home workers
- Concrete steps taken so far to implement the living wage throughout the supply chain
- Plans to continue to do so in the future

### **Past and present**

Over the past 10 years, Asda has worked hard to promote the welfare of workers in the countries from which we source. Each year we conduct approximately 16,000 audits globally for clothing factories, 'hard goods' sites (electronic goods, for example), farms, plantations and processing plants. Each audit takes a minimum of one day, is conducted by two auditors, and involves interviews with workers, site inspections and document reviews. The standard against which we assess these production sites is the ETI Base Code, which addresses such issues as child labour, forced labour, working hours and living wages.

We use independent third party auditors, and also call upon a team of 200 colleagues within our ethical standards department not only to conduct audits but to assess these, develop corrective action plans with production sites, and conduct follow-up audits 120/ 180 days later to determine whether factories have in fact addressed issues identified. Experience has taught us that an emphasis on 'continuous improvement' has the greatest impact, working with production sites and encouraging them to make changes in the way they treat their workers.

Not only do we audit production sites, but we hold training and education sessions for our buying teams and for the factories and suppliers with which we trade. We hold supplier forums, and factory development programmes ('Factory 5'), where we bring suppliers and factories together in small groups to review their operations, share best practice, and explore opportunities for successful implementation of our labour standard requirements (including, again, wage requirements).

Have these programmes been totally successful in eradicating abuses in the supply chain? Unfortunately, the answer is 'no'. While recent reports recognise that the efforts of many have resulted in progress being made in global working conditions, it is also true to say that much work still needs to be done. The question that often arises then, is 'Why?'. Why is it that large, national and multi-national corporations cannot successfully eradicate abuses in supply chains and ensure that all workers are treated fairly, with dignity and respect? And on the heels of this question is often the accusation that it is in the corporations' interests that workers rights are abused, that this in some way benefits the corporation.

I would say at this point that Asda has never knowingly participated in the exploitation of workers in our supply chain. It is never in our interests to allow abuse to take place- not only would this be morally repugnant, but would damage our brand in a real and permanent way. Are we then supine on this issue? We don't believe we are. Enormous effort is placed by Asda in combating worker abuse and promoting worker welfare in supply chains.

The reality is that the challenges posed by our commitment to the ETI Base Code are significant. For example, Asda does not own, manage or operate any of the production sites, farms,

plantations etc. with which we trade. These are independent businesses, numbering in the thousands for those sites with which we have a direct trading relationship and in the tens of thousands further down the supply chain. Could we place Asda colleagues in every one of these sites to monitor worker welfare? We don't believe this would be feasible- the cost of such an exercise would mean that we would soon be out of business.

Do we then abrogate responsibility for worker welfare? Of course, the answer is 'no'. However, at the same time we do not accept full responsibility for the welfare of workers in our supply chain- it would be disingenuous of me to suggest otherwise. These workers are not 'our' employees, just as the factories in which they work are not 'our' factories. Factories will usually have a number of customers, often scattered across a number of continents- a deliberate strategy on their part as a means of reducing their commercial exposure and managing their own commercial risk.

We recognise that we have a role to play in protecting and promoting worker welfare globally, and we fully accept that responsibility. At the same time, we believe that other stakeholders also share responsibility in this effort. We recognise that there is a need to work with unions, governments, non-governmental organisations, multi-stakeholder initiatives, academics, suppliers, factories, workers themselves and other corporate organisations in understanding what are often complex issues and in working to develop solutions to those issues. Oftentimes we find that we fill a legislative or enforcement 'vacuum', where authorities in that region have abandoned responsibility for worker welfare. In other instances, we find that although authorities want to see improvements in worker conditions they have woefully inadequate resources to accomplish their task. And this has been the case not only in 'developing' countries, but in developed countries also.

For example in 2005, after long and hard lobbying by UK retailers (including Asda), unions, NGO's, and representative groups (such as the Fresh Produce Consortium), the UK government established the Gangmaster Licencing Authority (GLA), an NDPB with a remit to police the UK produce industry and regulate the activities of labour providers to that industry. This includes ensuring that workers are paid in accordance with the UK minimum wage. Asda currently represents the British Retail Consortium on the board of the GLA, and are proud of what we see as valuable work with such partners as T&G/ Unite and NFU.

Likewise, we have seen similar success in other parts of the world. In 2006, for example, the Bangladeshi government increased the minimum wage for garment workers from 960 Tk (a level that it had been at for the previous 12 years) to 1600 Tk, in part due to pressure from such organisations as the international MFA forum, of which Asda is a member. Is this enough? Some estimates suggest that the national minimum wage in Bangladesh would need to reach at least 3,000 Tk for it to become a living wage. There is certainly more lobbying, more work that needs to be done on the issue.

This approach, of lending our support to collaborative initiatives, is increasingly one that we find effective. While we may be the UK's second largest retailer, a part of the world's largest retailer, experience has taught us that we are far more successful in tackling these issues when we join with others than when we work in isolation. So when the Environmental Justice Foundation, for example, recently accused the Uzbekistan government of deliberately forcing children into fields to harvest cotton we felt we should take action. We met with the UK government's Department for International Development and the US State Department, held meetings with retailers in the UK and in the United States, and agreed an approach designed to persuade the Uzbek government to abandon this practice.

CIES, the world's only independent global food business network and of which we are a member, is currently developing a 'Global Social Compliance Programme' (GSCP, of which we are board members) designed to agree at an international level a set of labour standards, governance structure and remediation programmes. This necessary piece of work will allow retailers globally to address labour standards challenges (such as 'What constitutes living wage?'). We are

working with the ILO on their Better Work Programmes, DfID on their Poverty Reduction Programme, and have been members of the Ethical Trading Initiative since 1998, participating in a wide range of projects. Over the years we have developed tremendous respect for such organisations ITGLWF, Bananalink, Oxfam, and the National Group on Homeworking, and have learned a great deal from them and the dedicated individuals they employ.

### Living Wage

Asda's position with regards to workers being paid a living wage is clear. While workers in factories are not Asda's employees, we have an expectation that workers in those factories will be treated fairly. Clause 5 of the ETI Base Code makes the following expectations of suppliers and specifically of production sites:

*"5. Living wages are paid*

5.1 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.

5.2 All workers shall be provided with written and understandable information about their employment conditions in respect to wages before they enter employment and about the particulars of their wages for the pay period concerned each time that they are paid.

5.3 Deductions from wages as a disciplinary measure shall not be permitted nor shall any deductions from wages not provided for by national law be permitted without the expressed permission of the worker concerned. All disciplinary measures should be recorded."

As you know, the ETI remit is that of a learning organisation, designed to explore effective means of driving Base Code expectations through global supply chains. In the case of factories paying living wages to their workers, there are practical difficulties that the ETI has grappled with for a number of years. A quote from an earlier ETI report:

"In monitoring wage rates paid in supply chains, one would start by ensuring that national legal minimum wages and industry benchmark wages are being paid. However, it is recognised that this will not ensure a living wage standard in all circumstances. For example, Lustig and McLeod (1998) found that in two of the countries they studied (Peru and Brazil) the statutory minimum wage was below the "high" poverty line measure (US\$60 per month at 1985 Purchasing Power Parity) reported in ILO research:

<b>Table 1: Ratios of Nominal Minimum Wages to Poverty Lines Selected Countries 1985 [1]</b>			
Country	Minimum Wage US\$ per month 1985 PPP	High Poverty Line Ratio <sup>a</sup>	Low Poverty Line Ratio <sup>b</sup>
Argentina	79.29	1.32	2.64
Brazil	51.95	0.87	1.73
Colombia	95.34	1.59	3.18
Costa Rica	110.15	1.84	3.67
Mexico	120.99	2.02	4.03
Peru	36.65	0.61	1.22
Philippines	93.19	1.55	3.11

Paraguay	189.06	3.15	6.3
Uruguay	64.25	1.07	2.14

Source: Nominal minimum wages obtained directly from the International Labour Organisation's data base on "Labour Statistics on Legal Minimum Wages" (LABMINW) and the poverty lines reported in Tabatabai and Fouad (1993).

a. Ratio of minimum wage to high poverty line (US\$60 per month), expressed as a percentage.

b. Ratio of minimum wage to low poverty line (US\$30 per month), expressed as a percentage.

Since the poverty line is supposed to reflect the subsistence needs for a single person, wages that are close to this line cannot be considered high enough to be called a living wage. Allowance must be made for dependants."

The ETI goes on to note that there is no one, universally agreed method of calculating a living wage, stating:

"There are two broad approaches to quantifying a living wage under discussion at the present time: an approach based on applying a standard formula to each supplying country and industry, and an approach involving local negotiation of the appropriate value of a living wage."

There are, then, practical challenges in supporting the objective of workers receiving a 'living wage':

- Local legislation in-country may set 'minimum wage' below the level of 'living wage'
- The lack of a standard, agreed approach to calculating the value of a living wage
- The fact that Asda, as a retailer, is at least two steps removed from the workers we want to support (Asda-Agent-Factory Management- Worker)

### Proposal

One question we are often asked is 'Why can't retailers pay factories more for their products, and in that way workers would be paid more?'. Unfortunately, the solution does not appear to be that simple. Criticism of labour standards in supply chains has been leveled at both 'high-end' and 'value' retailers- price increases paid by retailers to factories do not necessarily trickle down to workers.

The ETI is currently developing a project proposal to address some of the questions outlined above. That proposal is still in development, and so it wouldn't be appropriate for me to discuss it here. We have some concerns about the methodology proposed, questioning whether this will be an effective approach in delivering on the project objectives, and continue to discuss the proposal and methodology with the ETI.

In addition, however, we are developing a project here in Asda intended to run for the next 18 months. Our project will focus on 6 factories in Bangladesh, a significant apparel producer and a country where the minimum wage, despite recent increases described earlier, is still viewed as being less than that of a 'living wage' (however that may be calculated).

It is our view that one of the mistakes in previous such projects (a mistake made in some current and proposed projects) has been to attempt to 'impose' requirements top-down, retailer to factory.

Such an approach, in our view, has not been successful because ultimately it results in those factories becoming less competitive than their neighbors and, as a result, factories lose their customer base. Our intention is to assist factories in becoming more efficient in their production techniques, and encourage them to align worker pay with these productivity improvements. In doing this, we believe that a more sustainable model will emerge, one that will take advantage of market forces and allow workers to receive greater levels of compensation while at the same time ensure that the factories themselves remain competitive.

We are always open to suggestions, though. While we intend to share the results of our work with those who are interested, we believe that there is a body of expertise 'out there' from which we can learn. The consultancy 'Impactt, for example, has recently been engaged in similar work, and we are keen to understand the lessons learned from their efforts.

Martin, thank you once again for your interest. As our work progresses, we will be happy to keep you updated, and look forward to working with you.

Sincerely

Chris McCann  
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Asda Stores Ltd.