



UPDATE ON NEW LOOK ETHICAL TRADING ACTIVITY

June 2008

GENERAL

In 2008 we are maintaining our higher level investment in ethical trade in response to increased interest in this topic from our customers and other stakeholders. As of April 2008, we have increased the scope of our programme from our top 20 suppliers (responsible for 70% of our intake) to **all** our suppliers, who are now required to provide information about working conditions in the factories which produce our product.

Our team of 16 Ethical Champions, volunteers from the Buying, Merchandising and Design (BMD) are acting as increasingly effective advocates of ethical trade within our commercial department, and are active participants in our efforts to improve the impacts of our purchasing practices on workers in our supply chain. The champions are also all participating actively in the various ethical trading projects which are now ongoing, so as to ensure a strong link between commercial and ethical trading activities.

Our increased investment last year in factory improvement projects has borne fruit. We are now preparing to roll out the learnings from our ethical factory project in Bangladesh and our worker representation project in the UK (see below). Our purchasing practices project results are being fed into the re-engineering of our sourcing strategy and the entire design, buying and merchandising processes.

In summary, in 2008 we are:

- Increasing the scope of our programme i.e. involving more New Look people, more suppliers and more factories
- Committing more resource.
- Focusing on building ethical trading into purchasing practices.
- Putting into practice lessons learnt from pilot projects.
- Improving the impact of our own purchasing practices on the supply chain.

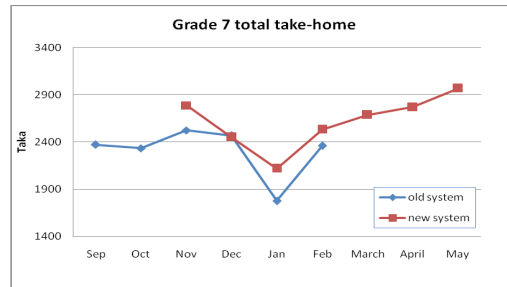
This will be another challenging year in the current economic climate, however, ethical trading is becoming increasingly important for us as we strive to deliver the product and brand value our customers want.

WAGES

As ETI members, we endorse the principle of living wages for all workers in our supply chain, including those on piece rate, sub-contracted workers, informal and home workers. However, this objective seems more challenging than ever in the context of rapid food price inflation around the world.

The project we launched last year in Bangladesh, with one of our top 5 suppliers who is responsible for around 8% of our production, to explore how far production efficiency and incentives for workers could increase wages towards a living wage has now almost concluded, with very positive results. Working with Impactt, the factory

has worked hard to improve productivity has raised wages and reduced working hours, whilst also supporting the development of a more active Workers Committee and introducing better procedures for workers to take paid time off. By May of this year, workers at the lowest wage grade (Grade 7) were earning 16% more than a year previously, for 27% fewer overtime hours. The average take-home pay of these workers had increased to Taka 2,924, a significant step towards a living wage. However, we are very aware that, against the background of rapid food inflation, the bar for what constitutes a living wage keeps on rising, and we continue to work hard with the factory to keep on improving. The graph below shows how wages have increased for the lowest paid workers since September of last year.



Wages are increasing month-on-month and we hope to reach Tk3,000 for this grade in the coming months. We have video footage showing workers' attitudes to this new way of working which we would be happy to share with LBL.

We are now devising the roll-out for this methodology. We are currently selecting a group of suppliers in a range of countries, each of whom will nominate up to 5 factories in which to roll out this methodology. We are looking at Turkey, Moldova, Vietnam and India to establish where this model has most chance of being successful. We have learnt that success requires informed thinking by factory management and the investment of time and enthusiasm by all parties. It is very important that we identify factories where there is a good chance of success for this stage of the roll out. We hope that this will result in a broad selection of case studies showing how this model works in a number of contexts, which we can then use to support a wider roll-out. We are very aware that we need to provide significant support to the suppliers and factories involved and will be providing training, workbooks and in-factory support. We hope that in 12 months time, we will be able to report take-up and positive results across a significant tranche of our supply base.

FREEDOM OF ASSOCIATION

As members of the ETI, we are committed to the principles of freedom of association and the right to collective bargaining. However, the penetration of trade unions in our supply base is relatively low. According to the ITGLWF, penetration of trade unions in the garment sector as a whole is only about 8%. Where trade unions are present, we actively work with them to support worker's rights, for example, we are currently working with the Cambodia Labour Union Federation (CLUF), with the advice of the International Textile, Garment and Leather Workers Federation (ITGLWF) and to resolve a dispute concerning one of our factories in Cambodia. Once this mediation is completed, we plan to engage with the ILO Better Work programme to support our supplier to build a good ongoing relationship with the union, supported by proper grievance and disciplinary procedures.

We believe that when workers are able to express their concerns to management, there is far less risk of significant labour rights abuses. For this reason, this year we

are prioritising the roll out of our worker committee model to factories where there is no active trade union present. Whilst this is not ideal, we believe that an empowered workers' committee can go some way to supporting workers to be able to negotiate with managers on key workplace issues.

To this end, we are rolling out the learnings from our 2007 UK workers committee project to a selection of our top suppliers. The objectives this year are to develop a simple workers' committee toolkit that can be used by all New Look suppliers and to foster a group of 4-5 suppliers, each of whom will work with up to 5 of their factories which can be used as models to demonstrate good implementation processes to the rest of the supply base.

MONITORING AND VERIFICATION

As last year, we completely agree with you about the importance of ensuring that workers' views are properly represented in assessments. We always use appropriate local organisations to conduct worker interviews which have a proper understanding of the local situation and culture. This understanding allows them quickly to establish a relationship of trust with the workers. We put the views of workers at the centre of our methodology, and work hard to identify groups and individuals best placed to win the trust of workers. To give you some more detail on this, for example, in China, we use former factory workers to conduct worker interviews and find that the empathy between interviewer and worker results in more fruitful dialogue. In Bangladesh we work with worker interviewers who also work with the ILO programme and have many years experience of community-based research. In India we work with Vinita Singh, founder of International Resources for Fairer Trade, who has a special interest in home-working and the informal sector. In Vietnam we work with Life Vietnam and Mobility Research and Support Center which are both known internationally for its work in understanding the challenges faced and needs of migrant workers. In Turkey we are working with Evre Kaynak of Women for Women's Human Rights-New Ways (WWHR). This approach means that we get a much better understanding of what matters in workers' lives. Furthermore, we talk to workers in their homes and outside the factory, where there is no risk of intimidation. Worker testimony is used to challenge the testimony of managers and documents since we believe that it is often the workers who give us the best picture of what is really going on in the factory.

Our worker interviewers always leave their contact details with the workers they have spoken to and workers often telephone to add further information or updates. We think that this demonstrates that our programme is beginning to provide an ongoing complaints mechanism which is actually used by workers.

We also regularly use unannounced assessments with offsite worker interviews in situations where we are suspicious about conditions at a particular site or where we have received intelligence about problems. We know that this approach uncovers issues in factories that have been 'passed' by other retailers and audit companies. We believe that there is an urgent need to work with other retailers to develop a higher standard of monitoring so that we can all work together on managing the issues.

Dear Martin

Thanks very much for your response – Below are the details you asked for in addition, hope this helps

1. Although I will keep my comments to the living wage section of your submission, I noted that the introduction states, "all our suppliers, who are now required to provide information about working conditions." This implies that you are relying on self assessment. Could you clarify whether this is the case?

We are working to extend the number of factories about whom we have good information. To this end we are requesting self-assessment information from all factories and then conducting a risk assessment looking at answers to the self assessment, country risk, risk from employment types and our own leverage with the factories. We then audit high risk factories, together with a selection of low and medium risk factories for control purposes. Whilst this does not give us 100% coverage, it has enormously increased the amount of information we are analysing. For example, 3 months into our new financial year, we already have access to as many audit reports as we had in the whole of last year.

2. Regarding the w:st="on"Bangladesh pilot:

- Q: Is the workers committee in negotiating wages? Is it democratically elected?

A: The WPC is currently made up of nominated representatives. However, elections, to be scrutinised by members of the now disbanded ILO garment industry team in w:st="on"Bangladesh, are planned for the last week in July.

- Q: We note that overtime has been reduced as part of the project, but it still appears that you are calculating wages based on overtime. A living wage must be, by definition, implemented within normal working hours.

A: I take your point – in theory a worker should be able to earn a living wage within standard time. However, as we all know, the reality in w:st="on"Bangladesh is that, under the current system, workers on the bottom payscale cannot make a living wage, even if they work extremely excessive hours. Taking this as the starting point, this project aims to see how far we can progress towards a living wage, or at least a better wage, within reasonable and legal working hours. It is important that this progress should be sustainable, and that factories should be able to maintain this progress, with the normal ups and downs of seasonality. We wouldn't claim that the project delivers a living wage within standard hours, but we do think it makes an interesting contribution to the debate on how better salaries can be achieved sustainably.

- Q: The chart is confusing, as it appears that wages at the end of the project do not differ significantly from at the start (due to the dip around January). Could you provide more explanation of the chart?

A: The chart above shows that the average take home for grade 7 workers on the old system was around Taka 2,400 (excluding January, explanation below). This was for very long working hours which were not only in breach of the ETI Base Code but workers reported that working these hours adversely affected their family lives. This was one of the principle motivations behind the project. We needed to find a way to cut hours, whilst maintaining or increasing take-home pay. The new system started in November, on a trial basis, with a small number of workers. From the start, workers were able to earn more than their colleagues on the old system, but for significantly fewer hours. Between November and February, the numbers of workers transferring to the new system gradually increased, with the old system being phased out in February. The significant dip in January was due to a lack of orders in the month, which meant that workers were sitting idle for several days. Workers on the old system had no overtime and therefore were only able to earn just above minimum wage. Workers on the new system fared a little better, again working no overtime, but earning production bonuses for hitting targets. However, since there was so little production in the month, not many styles were completed and therefore there were not so many production bonuses available. The key learning from this experience is the importance of smoothing the flow of orders to the factory. We have worked with the supplier to understand exactly what went wrong, and are now working hard to smooth out peaks and troughs through better planning.

Looking at the new system, there have of course been teething problems with practical implementation. It has taken time to develop the management's skills in setting achievable and motivating targets, and we think that there is still room for improvement here. But it is clear that workers on the new system are now able to earn closer to 3,000 Taka on average, for moderate working hours which are within or close to ETI Base Code limits. The chart below shows a snapshot of Grade 7 workers' take home wages and working hours comparing February 2007 with February 2008 and May 2007 with May 2008.

Grade 7 workers	2007		2008		% change in OT	% change in total take-home wage
	Average OT Hours	Average Total take-home	Average OT Hours	Average Total take-home		
February	112.9 hours	Tk 2696	48.8 hours	Tk 2532	-57%	-6%
May	76.32 Hours	Tk 2512	55Hours	Tk 2924	-27%	16%

This shows that in February 2008 Grade 7 on the new system receiving a bonus worked 57% fewer overtime hours than a year ago, but also that, on average, their total take-home pay had reduced by 6%. This was a good result, as far as hours were concerned, but did not deliver what workers needed in terms of take home pay. By May 2008, equivalent workers were earning 16% more than a year previously, for 27% fewer hours. This provides a better balance between fewer hours and more income. Over the coming months, we hope to hold this position steady, and increase wages and reduce pay incrementally.

- Q: How are your wage figures arrived at? As you are aware, wages are often over reported in figures given by suppliers to clients (although I expect the situation may be different in this pilot).

A: You are right to point out the lack of transparency of records can be an issue. With this factory we have access to all original pay and hours documentation in Excel and are able to run forensic statistical checks to identify outliers and anomalies. As you know, we are working with Impactt who are very experienced at picking up on this type of fraud. We also follow up with on and off-site worker interviews to check that we are getting the whole story. The success of this project has largely been due to the participation of factory management, who are united in their commitment to the project. They see the project as a way to demonstrate that their business is able to offer better standards to workers, which they believe will enable them to attract more international customers. They also see that a warts and all approach to reporting will help them to identify and tackle problems and make real progress, rather than brushing things under the carpet.

3. Q: It appears that your approach to living wages focuses entirely on productivity. If this approach does not in itself deliver sufficient increases to constitute a living wage, what will New Look do?

A: We are very aware that productivity is part, but only part, of the answer. In order to be successful, we believe that any approach to increasing wages towards a living wage must include more responsible buying practices by the retailer and also a genuine commitment by factory management to pay a decent wage. In terms of responsible buying practices, specifically on the w:st="on"Bangladesh project, we are have identified room for improvement in planning and forecasting to smooth the flow of orders. More generally we are participating in the ETI Purchasing Practices Project, working with our major Turkish supplier and the NGO WIEGO to identify where our purchasing practices are causing issues and work out how to improve them. We are also working on ways to incentivise our suppliers to provide better jobs for workers, so, for example, we are in the process of reviewing commercial terms with our w:st="on"Bangladesh supplier to provide an incentive for continued improvement.

Best regards
 Alan Osborne
 Group Supply Chain Director