

**CANADIAN RETAILERS &
RESPONSIBLE TRADE:
CURRENT PRACTICES &
CHALLENGES AHEAD**

REMARKS BY

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I am delighted to be here to share with you some thoughts on responsible trade, the current state of the art and the challenges ahead.

Responsible trade is a Pandora's box – and once opened, a large number of knotty problems spill out. Working through these knots preoccupies many of you in this room. And I know your organizations are cheering you on.

While science certainly dictates otherwise, many of you will have come to the conclusion that the world is shrinking fast. It is taken for granted that institutions and corporations increasingly conduct business in what used to be regarded as remote parts of the world. Now organizations have turned their attention to how business is done and with whom. Most particularly, they see those who make their goods or deliver their services, and they care about their working conditions.

This leads to a focus on labour standards in the developing and underdeveloped worlds on the part of Canadian and other developed countries that is, for the most part, relatively recent. Fresh thinking about how to manage these issues is essential. The consensus is forming that solutions lie in collaborative approaches which include companies, national and international associations, governments and non-government organizations.

Let me emphasize that sharing the responsibility in no way eliminates the urgent need for each element – every company, every management, - to do its part.

There is some evidence that these approaches have begun to bear fruit.

I would like to touch on some of the successes but first I want to look at responsible trade from the perspective of the Canadian retail industry. Since its inception in 1993, I have had the honour to chair Canadian Retailers Advancing Responsible Trade - CRART - an advisory body created by Retail Council of Canada. CRART's mandate is to provide counsel on matters related to responsible trade. It is a forum for the exchange of information and ideas on ways to promote the adoption of best practices by Canadian retailers.

The impetus behind CRART was twofold: First, there is a growing interest among retailers (as among others) in corporate social responsibility and good governance, issues which have become priorities for most organizations, boards of directors, shareholders and media. All of us are now reflecting more on our ethical responsibilities, probing where we have to do more and to communicate better what we've already achieved.

The second motivation behind CRART is the acknowledgement of how global retail operations have become. Canadian retailers are increasingly active in international markets. Their manufactured goods come from thousands of suppliers around the world, many in the developing world, where labour conditions have too often not reflected the values and practices we expect in Canada. (Not to say Canada's record is perfect).

Indeed, because of its frontline position with the general public as consumers, the retail community has been a particular target for activist groups and other stakeholders. Let's acknowledge that many of the activists are highly motivated and well informed. We can learn from them and they from us. But there are those who occasionally, resort to inflammatory language, simplistic arguments and misinformation to make their case. They do us all a disservice.

So let's talk for a moment about how retailers are meeting a higher standard of practice in terms of ethical sourcing. This is not a simple problem, by the way, nor does it lend itself to simple solutions. In fact, the issue of what constitutes fair working conditions, how to realize them and ensure compliance, in what we used to call the third world is enormously complex. The sheer number of suppliers and locations is daunting. Even small retailers may literally source goods from hundreds of suppliers; larger retailers from thousands of suppliers with multiple factories. These suppliers may, in turn, subcontract work to other manufacturers.

Even identifying exactly who all of a company's suppliers are on a particular day may be next to impossible. A single garment may have buttons from one supplier, zippers from another, trim from a third and be sewed by a fourth. Rapid changes in fashion may result in an equally rapid turnover in manufacturers and factories. As the Ethical Trading Initiative pointed out in their 2001/2002 Annual Report "...few companies can truthfully assert that they know how all their goods are produced when a typical supply chain is vast..."

In addition, cultural, social and work norms affecting labour and labour conditions in many parts of the world are vastly different from our experience in Canada. We are simply not in a position to impose our values and practices around the world. Attempting to do so is wrong-headed and impractical. For example, in many places in the third world, workers travel long distances to their places of work and would prefer to work more consecutive days before returning to their homes. These local realities cannot

become an excuse for inadequate working conditions. They do speak to the responsibility of global employers towards particular needs of their locally-engaged workforces.

One area of particular concern – and particular complexity – is that of child labour. The simple, understandable response by virtually all companies to evidence of this practice is to “just say no”. Most retailers automatically terminate supplier relationships if they discover that children are being used in the manufacture of goods in their supply chains. It seems like the most appropriate response but, in fact, organizations like UNICEF and other members of the Human Rights community and human rights lawyers like University of Ottawa Professor Errol Mendes, who is also a member of CRART, strongly advise that it is not.

Exploitative child labour, as distinct from work by children, is defined as children working excessive hours, with little or no compensation, in hazardous or slave-like conditions. It usually precludes them from participating in either full time or informal education, robs them of their childhood and may inflict social, psychological and or physical harm. However, preventing children from working in factories may end up putting them into much worse situations, living on the street and surviving from prostitution and drug trafficking where they are exposed to serious injury, sickness and even death. In many parts of the world child workers are the sole source of income for their families, so terminating contracts with the factories that employ them may put whole families and entire communities at risk. It is not a solution and may simply shift

the problem away from the export sector, where it has some international visibility, to domestic production where it does not.

Effective solutions lie in multi-sectoral partnerships like the project developed by UNICEF and the International Labour Organization in Bangladesh. The project began in 1995 with a Memorandum of Understanding signed by the Bangladesh Garment Manufacturers and Exporters' Association, the ILO and UNICEF. The goal of the project was to progressively phase out child labour in approximately 2,500 factories, while taking into account the best interests of the children, their families and the garment manufacturers.

The project had three key elements: a Social Rehabilitation Program to provide informal education to the ex-child workers; access to micro-credit for their families to increase family incomes and make them less dependent on their children; and, a monitoring and verification system, managed by the ILO to ensure that proper rehabilitation was in fact occurring. The results are impressive. According to a report by Professor Mendes last year, the percentage of child workers in the total labour force dropped from 3.5% to 0.26% within the 1995-2000 time period. The number of former child workers enrolled in 336 schools providing non-formal education established by UNICEF and two other NGOs was more than 8,300 during the project. I urge you to check the UNICEF website or contact Professor Mendes directly if you would like to know more about this project.

Child labour is certainly a topic that we have spent much time discussing at CRART meetings. We have had the good fortune to hear presentations from Professor Mendes and from UNICEF. CRART has set up a subcommittee to explore further what the Canadian retail community can do to help transform this egregious practice. We will be presenting our recommendations to Retail Council of Canada's board of directors later this year.

I do not want to pre-empt our deliberations in any way, however, I believe that the success of the Bangladesh project highlights the direction that responsible trade solutions in general should take. Given the scope of the problem, they must involve multi-sectoral partnerships which include governments and international agencies in planning and execution. Leadership by and among national governments is absolutely a prerequisite for success. Responsible trade is not an issue that industry, even acting in concert, can address on its own. To be effective, labour standards, policies and compliance programs need to be adhered to throughout the economies of developing countries and imposed by all governments in the developed world.

How is the Canadian retail community doing in the face of these challenges? Last year CRART conducted a qualitative review of European and North American retail leaders to identify best practices in responsible trade and situate our own efforts. We found that the activities and accomplishments of leading Canadian retailers are very much in step with those of their peers around the world. Most of these companies have adopted codes of conduct which apply to their own operations and those of their suppliers.

These codes invariably use the ILO's Declaration on Fundamental Principles and Rights at Work as their foundation. The Declaration, adopted in 1998, commits organizations to uphold basic human values in four areas: freedom of association and the right to collective bargaining; the elimination of forced and compulsory labour; the abolition of child labour; and, the elimination of discrimination in the workplace.

Like their counterparts in the developed world, leading Canadian firms such as Hbc, Wal-Mart, Sears and Canadian Tire, commit very significant human and financial resources to implementing factory monitoring and compliance programs that meet or exceed these standards. The extent of these commitments should not be underestimated. Factory audits are intended not only to identify problems - suppliers rarely receive a passing grade on the first inspection – but also to put in motion “corrective action plans” to fix them. This can be a demanding process but companies are starting to report positive results in factory performance.

CRART's best practices audit found that one of the most significant accomplishments to date in responsible trade has been the overall increase in suppliers' awareness of the need to meet international standards. In fact, this may quickly becoming a case of too much success – with some factories now reporting upward of 200 or 250 separate audit requests a year, many requiring slightly different specifications. The solution to this problem lies in the development of shared databases - a subject for another day and a

more technical presentation. However, I hope the complexity of the issue is becoming readily apparent.

Beyond the assessment of enhanced awareness, our audit found a consensus that the most progress on improving factory labour conditions is occurring in workplace health and safety – such as sufficient lighting and ventilation, provision of fire extinguishers, number of exits and signage. The posting of codes of conduct in factories in local languages has resulted in greater understanding by workers of their rights. It is still early days but good progress is being made.

The greater challenge - and CRART's priority - lies in finding ways to engage smaller retailers in efforts to further responsible trading practices. Many are unsure how to start and the costs associated with these activities can be unbearable for many smaller retailers.

Last October, CRART hosted a roundtable session on responsible trade for retailers and government officials. We wanted to supplement the views reported in the audit with those of a wider group of Canadians. They confirmed that Canadian retailers are indeed at very different stages in implementing codes of conduct and putting monitoring and compliance programs in place. They told us that CRART could make a valuable contribution to their progress by developing tools that smaller retailers could adapt to their specific circumstances.

We took their counsel to heart. I am pleased to announce that the first issue of CRART's quarterly newsletter on responsible trade, *CRART Exchange*, is available this week – there are copies on your tables. Our goal is to provide practical advice and direction to resources that can assist in implementing responsible trade practices. Every quarter, *CRART Exchange* will offer an update on news and information and provide an in-depth look at a particular issue. The newsletter will be posted on both RCC and CRART websites and we hope it will be of value to the retail community and to others. We would love to have your comments on the inaugural edition.

At the October roundtable session, we also heard from participants about the need for retailers, especially smaller companies, to work together. Two significant barriers to progress on responsible trade were noted: the inability to influence suppliers' practices and to monitor their performance continuously. Canadian retailers are frustrated by the fact that their influence on suppliers' performance is limited by the size of their market share, especially when they act alone. Even the largest Canadian retailers admit that it is easier to negotiate with vendors as a Canadian subsidiary of a larger US company than to go it alone. Many Canadian retailers are also daunted by the need for constant monitoring and the practical challenges of enforcing good practices on a sustained basis.

Retail Council of Canada has joined with the National Retail Federation in the US on an initiative to develop a shared database. The Fair Factories Clearinghouse (FFC), a non-profit organization dedicated to supporting workplace compliance through the sharing of factory audit information, was launched earlier this year.

FFC's goal is to provide cost-effective, web-based information which facilitates buyers' ability to make informed sourcing decisions. It will be a secure, global database for maintaining factory compliance audit information that allows retailers and consumer brands to manage information about factory conditions, sharing information companies wish to share and protecting their confidential information. As I mentioned earlier, these cooperative efforts are very important and promising for both smaller retailers and for overseas suppliers. We look forward to hearing about FFC's progress later this year.

Ultimately, the retail industry, governments and non-governmental organizations all have responsibilities to widen the awareness and use of codes of conduct, to enhance the sharing of information, expertise and best practices within Canada and internationally. Sometimes conflicts can develop in meeting these responsibilities. It is important that we do our best to develop a mutual understanding of our goals and to work together whenever possible to achieve them. These are issues the retail community has been struggling with for a long time. These efforts are starting to achieve some success – success which can be accelerated through partnerships with like-minded stakeholders in the community. I know they are looking forward to the opportunity.

Thank you.