

# Our suppliers and Ethical trading





# Buying fairly and responsibly

**We want our relationships with suppliers to be mutually beneficial, and to buy from companies that have high standards.**

More than 5,000 companies of many types and sizes across all continents provide us with thousands of products. We want these suppliers to be dynamic and successful because we can only be successful if they are. In 2007 we placed special emphasis on supporting smaller, local businesses. We also work hard to ensure that workers in our supply chain have fair labour conditions.

◀ A vegetable grower at Bahati Farm in Kenya, a supplier through the East African Growers' Association

# Our suppliers

Our success depends on identifying and working with strong, dynamic and confident suppliers.



## Position

Our suppliers provide thousands of products our customers want, from fresh produce to ready meals, clothing, furniture and electronic equipment.

We rely on an efficient, complex supply chain to deliver these products reliably, meeting high quality standards and giving customers value for money. We have over 5,000 direct suppliers, ranging from very small companies offering one product delivered direct to a few stores, to multinationals supplying lots of goods to our stores around the world via our international sourcing hubs in Hong Kong and elsewhere.

Critics sometimes argue that supermarkets use their power to force unfair prices and terms on suppliers – especially smaller ones – and fail to build long-term relationships which would allow them to plan adequately and invest in their businesses.

We do not believe that exploitative relationships with suppliers could ensure the quality, reliability and product development that our customers demand. We favour long-term relationships over short-term deals. We seek to get the best value from our suppliers so that we can pass this on to our customers, but we seek to do this in a fair way which reflects the costs our suppliers face. We need strong, dynamic and confident suppliers. Our success is tied to theirs.

Our approach is based on our core values – ‘treating people how we like to be treated’ and being ‘fair, responsible and honest’ in everything we do. We aim to be decent, legal and honest, work within voluntary and statutory codes such as the UK Code of Practice (see page 22), treat suppliers with courtesy and respect, and communicate openly.

# From global to local

# No.1

## ranked for fairness by suppliers in South Korea

### Progress

#### Working with suppliers

We value long-term relationships and have more than 1,500 suppliers with whom we have been working for five years or more. In many cases where suppliers have been working with us for a shorter period, it is because they are supplying new products to our shelves. We are committed to sharing customer views with suppliers as well as listening to suppliers to understand their perspective. For example, during 2007 we developed a system in the UK called TescoLink through which suppliers can access data such as store level sales of their products.

We have regular dialogue with our suppliers and try to develop confident and honest relationships so that concerns can be resolved and we can work together effectively. We also use formal processes to understand suppliers' views and identify how we can work together better.

**Supplier Viewpoint** We carry out an anonymous survey, called Viewpoint, to understand what suppliers think of us and identify areas for improvement across the business.

For example, we used Viewpoint to survey 200 suppliers in South Korea in 2007. They ranked us first of their three leading customers and said we were strong on fairness in work processes, communications, information sharing and trust in trading. We identified areas of improvement, which are reflected in our 2008 Community Plan projects.

**UK Competition Commission Inquiry** In 2007 and 2008 the Competition Commission continued its investigation into the grocery market, including the relationship between retailers and suppliers.

The Commission provisionally found that trends in supplier investment and product innovation in the grocery supply chain were positive. It provisionally found no systemic problems with the financial viability of UK suppliers. The number of small suppliers was found not to be decreasing and the Commission did not identify barriers preventing new suppliers from entering the market or existing suppliers from expanding.

Tesco supports the Competition Commission's proposals to extend the Supermarket Code of Practice to a wider range of retailers, which will help provide a level playing field across the industry. It will also help suppliers to have more relationships that are governed by the Code.

During the investigation the Competition Commission examined correspondence between retailers and suppliers. Its provisional findings found no systematic abuse of the supplier relationship. In fact, they found examples of best practice.

For full details of the investigation and some of Tesco's own submissions see [www.competition-commission.gov.uk](http://www.competition-commission.gov.uk) and [www.tesco.com/talkingtesco](http://www.tesco.com/talkingtesco)



The UK Office of Fair Trading (OFT) issued a statement of objections in September 2007 stating that there had been collusion between supermarkets and dairy processors on the retail prices of some dairy products in 2002 and 2003. We reject any suggestion that we have fixed prices or damaged the interests of our customers and are defending the case vigorously. We always try to act in the best interests of consumers.

#### Local sourcing

Customers increasingly want products that contribute to the local economy and help local suppliers.

In Poland, we have launched over 3,000 lines across our bakery, meat, dairy, water and beer categories sourced from over 200 local suppliers. All products have special packaging and were supported by a marketing campaign which linked local products to local jobs. Sales increased by 18% in 2007.

In Ireland, we worked with local growers to produce over 3,500 tonnes of onions and 1,500 tonnes of peppers, which would otherwise have been imported.

Our Local Supplier Programme was active in 11 Irish counties in 2007. We gave suppliers more shelf space and promote products in-store using their county colours. We held two successful roadshows for suppliers in Galway and Cork, and plan to extend supplier roadshows in other counties in 2008.

In the UK our aim is to stock more local lines than any other retailer, making local produce a mainstream part of our ranges in all stores. We launched 800 local products in 2007, bringing the total to more than 3,000. Sales grew by over £400 million and we are aiming for £1 billion by 2011.

We completed a network of eight regional buying offices in 2007, with dedicated buying, marketing and technical teams. They met 500 potential suppliers at 15 roadshows, and are working with more than 100 new suppliers to develop products. Small suppliers can access a fund to cover initial costs and help them to expand.

# Our suppliers continued

In 2007 we launched localchoice milk in around 760 stores in the UK as a result of a partnership with Dairy Farmers of Britain, Graham's Dairies and Robert Wiseman. This gives customers the opportunity to support small and family-owned farms through their buying decisions. We pay a premium to localchoice farmers and sell the milk at a slightly higher price. There are now 20 localchoice regions across England, Scotland and Wales, with the milk sourced exclusively from the region where it is sold. Our dairy team shares knowledge with local farmers to help them understand consumer trends, and they can take part in Tesco local marketing initiatives. localchoice sales are currently at 18 million litres last year.

## Supporting farmers

We support farmers in the countries where we operate, helping them respond to what customers want. For example, all our fresh eggs and milk in the UK are British, as are 95% of our fresh beef, 85% of our fresh chickens and 80% of our fresh lamb and pork.

We engage and share information with farmers and growers through attendance at agricultural shows, producer clubs, a dedicated website and support for industry-wide bodies and projects.

Regional producer clubs meet every quarter, focusing on how we can help producers develop their business, especially through sharing customer trends with them. We support food chain research and have a dedicated website ([www.tescofarming.com](http://www.tescofarming.com)) to provide information about Tesco, our requirements and standards, latest news and how to supply us.

# 18m

**litres of localchoice  
milk sold last year**

## >> Case study: Dairy Farmers

In 2007 we launched an award-winning plan to help the UK dairy industry by identifying farming systems that improve commercial viability as well as meeting customer expectations for animal welfare and environmental impact.

We created direct relationships and contracts with over 1,100 dedicated Tesco dairy farmers – the Tesco Sustainable Dairy Group (TSDG). Tesco provides farmers with a guaranteed price for milk, which is independently reviewed twice a year taking account of farm input costs and market prices.

In return, farmers are expected to follow the recommendations of an advisory board – the Tesco Sustainable Dairy Project (TSDP). The board consists of 12 elected representative farmers from the TSDG, dairy processors, advisors and Tesco representatives. Its initial programme has four key 'pillars': herd health planning; animal mobility; calves; and environmental impact.

For example, we have funded workshops for all our farmers, providing practical guidelines on how to reduce lameness in dairy cows, which would otherwise cost dairy farmers a significant amount. Our objective is to help our dairy farmers reach environmentally friendly dairy farming practice and to this end we are currently gathering information to understand where we are and what the most appropriate next steps should be.

The work of the TSDG won the RSPCA Business Innovation Award in 2008. <<

**UK Code of Practice** The Supplier Code of Practice was introduced by the OFT in 2001, covering Tesco and several other large supermarket groups in the UK. It covers issues such as changes to agreed prices, contributions by suppliers to marketing costs, and dispute resolution. The Code was independently audited during 2004 and 2005, and no evidence of breaches by Tesco were found.

# Nature's choice





H Weston & Sons supply us with ciders in the UK.



Local products on sale in Malaysia.



Morelli's ice cream supplying our stores in Northern Ireland.



Informing customers of product provenance.



Locally made bread in the Czech Republic.



'Meet your local farmer' event in the UK.

We were the first supermarket to appoint a Code Compliance Officer in 2005 to act as a contact point for suppliers. It enables suppliers to escalate their complaints on a confidential basis. We welcome the Competition Commission recommendation that all supermarkets appoint such an officer in future.

All buyers undergo training on how to ensure compliance with the Code in their daily work, and how to achieve solutions that work for both suppliers and Tesco.

Suppliers are able to raise any concerns through routine contact with our buyers. If necessary, they can pursue the issue with more senior management. We find that most problems are resolved in this way. If they still feel unhappy they can pursue the issue with our Code Compliance Officer, or raise a formal complaint to the OFT under the Code. In 2007, no such complaints were made, and no issues were raised with our Code Compliance Officer, either formally or informally.

#### Nature's Choice

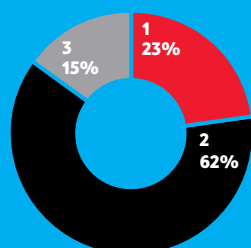
Our award-winning programme, Nature's Choice, which we introduced in 1992, applies to all growers for our UK business (approximately 12,000) and aims to ensure that fruit, vegetables and salad are grown to high safety, quality and environmental standards.

The standards cover issues such as the use of pesticides and fertilisers, pollution prevention, protection of human health, use of energy and water and other environmental issues. We have also introduced targets to improve biodiversity and landscape requirements.

Growers are independently audited against the standards every year, using a bronze, silver and gold rating. Suppliers must reach at least the bronze standard in order to supply us. The silver and gold ratings are designed to encourage suppliers to seek continuous improvement of their environmental standards.

A warning 'yellow card' is issued to a grower if a critical failure is discovered. We work with suppliers to try and ensure they can improve their performance, but if they receive two yellow cards, or fail a critical control point, we will suspend supply from them until they correct faults. There were 40 yellow cards in 2007, all relating to technical compliance with the use of permitted pesticides, which did not affect health or safety.

An important development in 2007 was the adaptation of the programme to ensure that smaller growers, especially in developing countries, are not excluded on purely technical grounds if they meet the spirit of the standards.



Number of audits in 2007: 8,632

#### Growers certified as:

- 1 Gold
- 2 Silver
- 3 Bronze

**40**  
yellow cards issued to growers with audit failures

# Our suppliers continued

## Animal welfare

We aspire to high standards of animal welfare wherever we operate and we support research in this area. In the UK we have livestock codes of practice that cover all aspects of animal husbandry, animal welfare requirements, environmental impacts and food safety. All meat, poultry, eggs and farmed fish suppliers must be members of an independently audited and certified farm assurance scheme. Overseas suppliers to UK stores must be similarly certified with an equivalent scheme.

We employ a team of agricultural specialists to ensure that farmed animals are reared humanely. Independent auditors carry out unannounced inspections on the farms and abattoirs that supply us to ensure that our standards are being met. For example, in 2007 these specialists conducted 833 audits. If these audits raise concerns we inform the supplier and work with them to ensure appropriate action is taken within 14 days. If repeat concerns about a particular supplier are raised over two consecutive audits we will consider ceasing to work with that supplier at least until we have evidence that the concerns have been dealt with.

We do not support testing on animals for cosmetic or household purposes and do not carry out or commission such tests on our own-brand products or the ingredients in them. Tesco contributes £10,000 a year to the Fund for the Replacement of Animals in Medical Experimentation (FRAME), which seeks to end animal testing.

Many UK customers are concerned about intensively reared chickens. Our approach is to provide customers with choice and the information necessary to make an informed decision. We aim to increase sales of chickens raised with higher welfare standards by raising awareness, and pricing these products competitively. We do not want to penalise customers on a tight budget by removing lower-cost products on which many rely.



KPI		2007/8
Nature's Choice	To register all organic growers in countries prioritised for the first year of the three-year programme as part of our target to ensure all organic growers are registered to Nature's Choice by March 2010.	●
	To audit all organic suppliers in countries prioritised for the first year of the three-year programme as part of our target to ensure 100% of organic suppliers comply with Nature's Choice by March 2010.	●
Local sourcing	To grow sales of local products by 30% by March 2008.	●
Supplier relations	To monitor supplier relations through our Supplier Viewpoint Survey. Over 90% of our suppliers view us as being trustworthy, reliable, consistent, clear, helpful and fair.	●
<ul style="list-style-type: none"> <li>● Below target</li> <li>● Close to target</li> <li>● On target</li> <li>● Above target</li> </ul>		<p>To view the complete KPI table, please go to:</p> <p style="text-align: center;"><a href="http://www.tesco.com/crreview08/kpi">www.tesco.com/crreview08/kpi</a></p>

## Promise

We will continue to develop and maintain strong relationships with all our suppliers, based on our core values – 'treating people how we like to be treated' and being 'fair, responsible and honest' in everything we do.

In particular we will:

- > develop a plan to increase the number of suppliers who regard us as being trustworthy, reliable, consistent, clear, helpful and fair, building on the 92% of suppliers in the UK who view us in this way;
- > develop local ranges throughout the business including by setting targets for growth; in the UK we aim to increase sales on local products by more than 30% by March 2009;
- > continue our support for UK farmers, including trebling our sales of localchoice milk by 2009;
- > help our dairy farmers to reach best environmentally friendly dairy farming practice within five years, through our Tesco Sustainable Dairy Project;
- > work with suppliers to develop long-term, mutually beneficial relationships, for example by training our buyers to follow codes of conduct and best practice;
- > develop our Nature's Choice programme to help our suppliers, including those in developing countries, raise safety, quality and environmental standards;
- > clearly label all own-brand eggs to ensure that customers understand whether they are from caged, barn or free range hens; and
- > redesign our farming website to ensure greater levels of information on animal welfare, more than any other retailer, so that customers can make an even more informed choice.

# 833

**animal welfare audits conducted in 2007**

# Ethical trading

At the heart of our values is our belief that we should treat people how we like to be treated.

## Position

Our core values are 'no-one tries harder for customers' and 'treat people how we like to be treated'. As a mass-merchandise retailer, providing unbeatable value for customers means sourcing the best value products from around the world – at the best prices. This helps families stretch their budgets further, brings more products within the reach of ordinary people, and helps to drive economic growth and our own growth.

Achieving this involves sourcing from many different countries around the world – some highly developed and some less developed, with differing standards of regulation and enforcement. Some critics argue that our presence in developing countries worsens conditions for workers because we put pressure on our suppliers to cut costs.

We believe that, in general, trading with these countries brings benefits to them and to the people who work in them – as China's extraordinary 20 years of export-led growth and poverty reduction have shown.

But treating people how we like to be treated means ensuring as best we can that our values and our standards apply wherever we source. So we require our suppliers to meet strict criteria on labour standards, and have an ethical trading policy that commits us to working hard to address and make progress on the challenges we face, both in the UK and overseas.

The policy applies to primary suppliers of our own-brand products, as well as all loose, unlabelled produce. In 2007 we also began the process of extending our ethical trade programme to Corporate Purchasing, which buys all our goods not-for-resale.

## The Ethical Trading Initiative (ETI)

As a founder member of the ETI, we expect all our suppliers to follow the ETI Base Code and guarantee their workers the rights set out within it.

### The ETI Base Code

- > Employment is freely chosen
- > Freedom of association and the right to collective bargaining are respected
- > Working conditions are safe and hygienic
- > Child labour shall not be used
- > Living wages are paid
- > Working hours are not excessive
- > No discrimination is practised
- > Regular employment is provided
- > No harsh or inhumane treatment is allowed



[www.ethicaltrade.org](http://www.ethicaltrade.org)

## Our approach

There are five stages to helping ensure decent labour standards throughout our supply chain:

- > finding good suppliers that share our values;
- > monitoring performance to identify issues;
- > addressing problems where they arise;
- > building capability to avoid issues before they happen; and
- > working with others to tackle complex and systemic problems that we cannot tackle on our own.

# A fairer deal





# Ethical trading continued

## Progress

### Finding good suppliers

We only work with suppliers who can demonstrate they are committed to the ETI Base Code and share our values. We have over 5,000 suppliers across the Group, covering our entire range of food and non-food products. As our range grows, so does our supplier base. We evaluate all potential new suppliers to ensure they know the standards set out in the ETI Base Code and have the capability to meet them. Where major problems are identified we will not work with that supplier.

### >> Case study: Jute bag suppliers in India

In 2007, we began work to ensure that suppliers of goods for our business (rather than for sale in our stores) will be subject to the same rigorous standards and processes as our food and non-food suppliers. This means everything from printing paper for our head offices to the bags available for customers at checkout. As part of our efforts to offer alternatives to plastic bags, we identified ten potential suppliers of jute bags in India. After following our ethical trade process, our buying team ruled out eight of them because they were not sufficiently confident that the suppliers would meet our standards. <<

### Monitoring ethical performance

Suppliers can sometimes find it difficult to maintain the high labour standards we expect. To take action and help them improve, we need to know what is happening. We work hard to ensure that we get as detailed feedback as possible of the conditions in the factories and farms around the world that supply us. While we cannot monitor all our suppliers' sites all the time, we believe that our approach of risk assessment and auditing gives us an accurate picture of conditions.

**How do we choose whom to audit?** To target our resources most effectively, we make annual risk assessments of all our primary supplier sites, based on differently weighted criteria, including the country in which the supplier is based, the type of industry and the history of the supplier. Instead of using our own judgement to decide which sites are high or low risk, in late 2007 we moved to using the independent Sedex risk assessment tool for all primary supplier sites to the UK business. The Sedex tool allows us to gather much richer information about each site, including gender and ethnicity, languages spoken, and the split between temporary and permanent labour. In 2008, we will roll out the use of Sedex risk assessments to all our international businesses as well. Factories or farms identified as low risk are obliged to undertake a self-assessment process, which can then be monitored by Tesco. This is complemented by visits from our commercial and technical teams to confirm that their low-risk status should continue. All our medium- and high-risk suppliers must undergo an extensive ethical audit carried out by independent auditors from a list approved and verified for quality by Tesco.

# 5,000

**direct suppliers to Tesco Group covered by risk assessments**

**How many audits are carried out?** We have a target to ensure that 100% of our high-risk supplier sites are independently audited. While we achieved this in 2006, we only audited 73% of such suppliers in 2007 – even though we carried out significantly more audits than the previous year (455 compared with 221). This reflects a rise in the overall number of supplier sites, which increased by 25% and were disproportionately allocated a high risk rating as the business continues to expand into non-food areas. The introduction of the Sedex risk assessment tool in September 2007 also had an impact as a proportion of medium-risk suppliers were reclassified as high risk. As these changes did not occur until late in the financial year and resources had already been allocated to improving our auditing programme (see below), we failed to meet our target.

To help us meet our target in future years, we have increased the resource in our ethical trading team to cope with the higher number of suppliers as our business grows. And as part of a fundamental review of our ethical trading policy, we will also aim to slow or reverse the increase in the number of suppliers that we use and make sure those suppliers we do work with share our values.

**What sort of audits are they?** Of more than 1,800 audits of Tesco supplier sites in 2007, most were independent, 'announced' audits. This approach is important as it enables the auditors and the supplier to ensure that: the relevant members of staff will be present when the audit takes place; workers and worker representatives can plan a representative sample of worker interviews (vital for getting an accurate picture of workers' views of conditions at the site); and that any corrective actions can be agreed at the end of the audit.

However, we recognise that there are limitations to announced audits. These concerns are shared by some NGOs, particularly where such audits fail to find evidence of poor labour standards alleged by others. As a result, since 2006 we have sought to strengthen our audit programme in several ways.

- > We have undertaken an extensive series of unannounced audits to compare the findings with announced audits at the same sites and identify areas for improvement. In Bangladesh, China, India and Pakistan, 164 audits took place, which showed differences in some cases to the results of earlier announced audits. We will roll out an increased programme of unannounced audits next year.
- > In August 2007 we instigated verification audits at eight of our Chinese suppliers, where we believed there might be particular problems. Verification audits differ from a standard audit in that they focus on off-site worker interviews conducted without the knowledge of factory management. The results showed that some important improvements had been made since previous interviews in 2006 but that overall little had changed and some problems remained.
- > Based on these findings, we have developed an industry-leading Auditor Recognition Programme (see case study on page 28).
- > We have also sought to involve more multi-stakeholder representatives (such as from NGOs) on our audits to improve workforce engagement, and to enable activists to see and offer feedback on our approach.



# Good for you

## Supplier Ethical Data Exchange (Sedex)

Sedex is a not-for-profit organisation that provides a web-based database of information on labour standards compliance. By enabling suppliers to share this ethical data with retailers the Sedex system helps to drive convergence on standards, and helps to reduce the cost and duplication of ethical audits for suppliers.

Tesco, a founder member, now requires all suppliers to register with Sedex, and uses the database to target where resources should be allocated (see Monitoring ethical performance, page 26). Since its launch in 2004, Sedex has grown rapidly; over 18,000 supplier sites in over 100 countries are now registered, and several key players in the food and drinks industry have recently joined, including Group Danone, Kraft, Mars, Nestlé, PepsiCo and Unilever.

[www.sedex.org.uk](http://www.sedex.org.uk)



# Ethical trading continued

## >> Case study: Auditor Recognition Programme

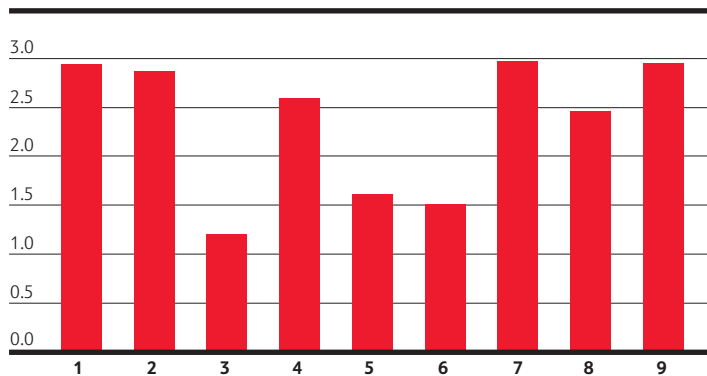
To tackle the inconsistency in the quality of auditors, which can vary significantly between the countries in which we operate, we have developed a list of individually named, competent auditors, rather than simply approving audit companies for work with Tesco as a whole. Companies were invited to apply for inclusion on the list and we received applications from a wide range of auditing organisations, following which a desk-based process for vetting auditor skills and experience was initiated. By the end of 2007, 454 auditors from eight organisations and four trade sector schemes had been recognised, covering 121 countries in total. A verification process is currently under way to check the competencies and experience of our newly recognised auditors. From 1 January 2008 all audits for Tesco must be carried out by one of these recognised individuals. We hope this will safeguard the quality of independent ethical auditing carried out for Tesco, and look forward to reporting progress next year. <<

## Addressing problems

Every time we find a non-compliance with the ETI Base Code, we take action.

Our priorities on labour standards are to ensure there is no child labour, forced or bonded labour, or any form of abuse in our supply chain. We investigate any reports of such problems immediately – whether from suppliers themselves, from auditors or from other sources such as worker groups, NGOs and trade unions – and work directly with suppliers to stop them.

Such problems are rare. Our audit results (see chart\*) indicate that issues in our supply chain are broadly consistent with those of other UK supermarkets. For these and other breaches of ETI standards, suppliers are required to develop corrective action plans. These are uploaded onto Sedex for review by Tesco (and other member retailers) so we can follow up these actions and make other improvements in labour standards.



Key: compliant = 3

non-compliant = 1

- |                           |                  |
|---------------------------|------------------|
| 1 Work freely chosen      | 6 Hours          |
| 2 Freedom of association  | 7 Discrimination |
| 3 Health and safety       | 8 Contracts      |
| 4 Child and young workers | 9 Discipline     |
| 5 Pay                     |                  |

\* Data is from the ETI, based on corporate members' reports for 2006.

We expect improvement plans to be implemented as soon as possible and require all actions to be completed within six months, although our emphasis is on assisting improvement rather than simply policing deadlines. We do not want to 'cut and run' from difficult countries or difficult industries but, wherever possible, seek to help businesses develop into strong partners and ensure that the livelihoods of workers steadily improve. However, if suppliers continually fail to meet our standards and refuse to implement corrective actions, it is important that they know we will stop working with them. In 2007 we ceased trading with 11 suppliers owing to ethical trade issues, compared with three in 2006.

## Assisting improvement

We have invested heavily in building the labour standards capabilities of our suppliers and our own commercial teams in 2007. All Tesco buyers must attend a half-day course to understand better the impact of their purchasing decisions on labour standards and to help them identify potential issues. Technical managers (responsible for standards and compliance within the commercial teams) attend a more intensive two-day course to ensure they can support buyers in managing these issues effectively. In 2007 we trained over 650 buyers and technical managers.

High-risk suppliers to our UK business attend our 'Supplying With Your Eyes Open' workshop to understand our requirements of them and help ensure good labour standards at their factories. In 2007 we ran 11 workshops in Hong Kong, China, Poland, Thailand, Bangladesh, Turkey and India, which were attended by 534 supplier representatives from both food and non-food sectors. These were delivered by consultants in the local language with a Tesco representative present. We are in the process of rolling out our supplier training programme to all our international businesses.

Where problems are particularly complex or systemic, we consider a further range of actions to help suppliers address them. This can involve visits by Tesco staff or independent auditors to the factory or farm to agree improvement programmes, or running extra training courses for a number of suppliers experiencing similar difficulties. For example in China, where long working hours are a common problem, we have provided training for factory supervisors to focus on effective production scheduling to minimise the need for long working hours and temporary labour.

## >> Case study: Supporting our suppliers

The clothing industry for school uniforms in the UK is very competitive, especially on price, so we encourage dialogue with our suppliers to tackle potential labour standards problems before they arise. In meetings during spring 2007 with two of our major suppliers of schoolwear from Bangladesh, we agreed to extend the lead time so that the suppliers could ensure that all employees did not work more than the ETI-recognised limit of 60 hours in one working week. <<

# 11

**suppliers delisted due to ethical trade issues**



# Affordable fashion

## Working with others

We can do a lot to improve conditions in our supply chain through our improvement programmes and capability building. But tackling some of the complex and systemic problems in specific countries and industries requires working in partnership with others.

In 2007 we worked with these partners.

- > **Ethical Trading Initiative (ETI)** As well as setting out the core labour standards code which we seek to apply throughout our business, the ETI also provides a forum to investigate common issues in our supply chain. We play an active role by contributing to many of the ETI's working groups and projects. In 2007 these included the General Merchandise Group, Food Group, China Working Group, Wages Project, Homeworkers Group and Supervisor Training Working Group. Tesco chairs both the Food Group and the General Merchandising Group at the ETI.
- > **Global Social Compliance Programme (GSCP)** The plethora of labour standards codes adopted by retailers across the world has resulted in inconsistency in determining non-compliances, corrective actions and verification criteria. To address this, Tesco, initially with four other global retailers, formed the Global Social Compliance Programme in 2007. The GSCP has already agreed a draft Reference Code between the 25 leading retailers and manufacturers currently involved. The GSCP Reference Code has taken the highest standard from the many existing codes consulted to develop a 'code of codes', in preference to a lowest common denominator standard. Next steps involve the development of an audit checklist to ensure the Code is interpreted consistently around the world. Longer-term goals include closer collaboration and data sharing between members, joint efforts at capacity building with suppliers, and implementation of remediation plans across our common supply chains. Tesco chairs the GSCP board.
- > **Sedex (Supplier Ethical Data Exchange)** Tesco was instrumental in founding Sedex in 2004, and continues to play a central role in its development. Tesco staff sit on the Sedex board, Associate Auditor Group, and IT Development Working Group. Key developments in 2007 included the launch of the Sedex Members' Ethical Trade Audit Methodology (an important tool in driving convergence in standards), a review of the Sedex risk assessment tool, and a significant increase in members (see case study on page 27).

## >> Case study: Working with the Environmental Justice

**Foundation (EJF)** Following a three-year investigation on Uzbekistan's cotton industry conducted by the EJF, which revealed the use of organised and forced child labour, our clothing team worked with the EJF to identify options for tracing cotton in our supply chain more rigorously, and for eliminating cotton supplied from Uzbek sources. In 2007 Tesco was the first UK retailer to announce that it was banning the use of Uzbek cotton by its suppliers. We hope the move, which has been followed by several other retailers, will put pressure on the Uzbek government to remove child labour from cotton farms and improve conditions for all workers. <<

KPI	2007/8	
<b>Supply chain labour standards</b>	To carry out independent ethical assessments of 100% of our high-risk own-brand suppliers.	●
	To train 100% of our high-risk own-brand suppliers.	●
	To ensure all commercial teams have received training on supply chain labour standards.	●
To view the complete KPI table, please go to:		🔍
<a href="http://www.tesco.com/crreview08/kpi">www.tesco.com/crreview08/kpi</a>		

## Promise

In 2008 we will build on our achievements by introducing a comprehensive plan to improve labour standards in factories and farms supplying Tesco.

This will include:

- > effective measurement of standards by continuing our audit improvement programme;
- > rewards for suppliers that demonstrate a commitment to improve labour standards; and
- > mechanisms for supporting poorly-performing suppliers by including investment in labour conditions expertise to enable us to work more closely with them.

We will be transparent about our progress to stakeholders, including our suppliers, NGOs, investors, and our customers in-store.