



Brotherhood
of St Laurence

Working for an Australia free of poverty

Submission
re the fifteen
recommendations in
the TCF Review report
Building innovative capability

Brotherhood of St Laurence
January 2009

Declaration of interest

The Brotherhood of St Laurence (BSL) is a Melbourne-based community organisation that has been working to reduce poverty in Australia since the 1930s. Our vision is 'an Australia free of poverty'. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

The BSL has operated a small Australian-based garment manufacturing business, Hunter Gatherer, accredited as a No Sweat Shop manufacturer and retailer. In addition, we operate a wholesale optical frames business importing frames from China which gives us direct experience of overseas manufacturing supply chains. Our organisation also operates a donated goods business, which sorts, re-sells, and disposes of large quantities of second-hand clothing.

Through our experience managing businesses and our organisation's strong research credentials, we have been consulted widely on the issues faced by small to medium enterprises (SMEs) when developing and implementing corporate responsibility practice. The BSL is represented on the Homeworkers Code of Practice Committee and the RMIT Fashion Program (HE) Advisory Committee; we are the convenor of OECD Watch in Australia; and we have extensive research experience in the areas of corporate responsibility (CR) in the Australian garment sector, voluntary and mandatory CR frameworks, and standards and labour rights issues in Australian and Chinese manufacturing supply chains.

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Summary

The BSL would like to commend Professor Roy Green for the focus given to ethical supply issues in the TCF Review report, *Building innovative capability*. The recommendations in the report will go some way towards building an Australian garment industry with a reputation for ethically produced goods. This focus will assist ongoing access to international and local markets, as companies, consumers, investors and governments increasingly require companies to be able to demonstrate that their products are manufactured in a way that does not harm people or the environment.

To create an Australian garment industry that fosters ethical production the BSL recommends:

- Adopting the references to ethical supply issues in recommendation; 6, 7, 9, 11 and 15
- Establishing the TCF Innovation Council (Recommendation 4) with broad industry representation including small and large companies; consumer representatives; unions and NGOs representing labour rights, environmental and animal welfare issues. Financial assistance should be made available to some organisations to facilitate participation
- Ensuring the Ethical Quality Mark (Recommendation 9) responds to issues arising in both Australian and international supply chains
- In developing the Ethical Quality Mark's international sourcing model, ensuring that it meets international best practice and responds to the complexities related to monitoring and improving labour rights in overseas supply chains
- Linking operational criteria for the TCF ICP (Recommendation 7) and government procurement contracts (Recommendation 11) to companies that demonstrate a commitment to ethical sourcing and production both in Australia and overseas
- Adopting Recommendation 15 to ensure TCF workers, including home-based workers, are provided with better protection through legislation, industrial awards and voluntary mechanisms
- Adopting Recommendation 14 to ensure that Part 1 of the TCF SAP enables industry workers to access the program. Consideration should be given to whether funding is adequate to deliver the program.

This submission focuses on those recommendations in the TCF Review Report, *Building innovative capability*, that relate to ethical supply issues. As such the BSL only provides feedback on six of the fifteen recommendations in this submission.

Evidence for this submission

This submission makes use of recent BSL research findings published in *Ethical threads: corporate social responsibility in the Australian garment sector* (Diviney & Lillywhite 2007). Researchers spoke to 37 organisations—23 companies and 14 industry stakeholders, including business organisations, labour rights organisations, and government employees—and to 13 outworkers in two focus groups.

The submission also incorporates feedback from an industry forum convened by the Brotherhood of St Laurence and hosted by Middletons law firm on 26 November 2008. The forum, entitled ‘Fashioning a Sustainable Garment Industry in Australia’, provided information and stimulated discussion on enhancing and improving responsible and sustainable business practice in the Australian garment sector’s international supply chains. The event was attended by key industry stakeholders. (A speaker and participant list is provided in the Appendix.)

At the forum, speakers were asked to present two or three key ideas for progressing responsible business practice in the Australian garment industry. In the plenary session participants were given the opportunity to indicate whether they agreed with the ideas, disagreed or agreed with minor changes. These results and the feedback from the plenary session inform our response to Recommendation 9 relating to the Ethical Quality Mark. Feedback provided by research participants, via email, after the event, is also included in the analysis. A forum report will be completed in late February 2009.

BSL response to recommendations

Recommendation 4: *A TCF Innovation Council should be established, with funding of \$12 million to commence in 2009, as one of the proposed sectoral innovation councils with the task of advising the Australian Government on key priorities for the TCF industries in the context of the broader National Innovation System. The TCF Innovation Council would include appropriate representation from TCF industry stakeholder groups.*

The BSL supports the development of a TCF Innovation Council which will foster industry dialogue. Our *Ethical threads* research identified a lack of trust between workers, suppliers, labour rights organisations and principal companies, who do not work collaboratively and often fail to understand each other’s circumstances. There was a general view by research participants that no satisfactory mechanism for multi-stakeholder dialogue exists, suggesting this was a key reason why the Australian industry had been slow to embrace both voluntary and mandatory mechanisms to protect workers in international and local manufacturing supply chains.

The government needs to ensure the council has broad representation including small and large companies; unions; educators; consumer representatives; and NGOs working on labour rights, environmental and animal welfare issues. Given the international dimensions of the TCF sector, there needs to be input from individuals and organisations with an understanding of international ethical supply chain issues and voluntary and mandatory corporate responsibility mechanisms.

Finally, funds should be allocated to facilitate broad industry participation. This will assist organisations with limited resources, such as NGOs, unions, smaller companies and smaller industry bodies, to engage in the process.

Recommendation 6: *Eligibility criteria for the TCF ICP should include: (1) value-adding to the Australian economy; (2) ethical production and supply chain standards; (3) additionality of*

program funding; (4) employee involvement in change projects; and (5) accountability for delivery of project aims, with dissemination of key learning outcomes.

The BSL strongly supports the inclusion of ethical production and supply chain standards as part of the eligibility criteria for the TCF Innovation Capability Program (TCF ICP). Our own *Ethical threads* report recommended that the government:

consider, in consultation with all stakeholders, linking tax incentives, government subsidies and assistance schemes to companies that demonstrate a commitment to ethical sourcing and production. (Diviney & Lillywhite 2007, p.15)

The BSL also recommends that ethical production and supply chain standards are applied to other government funding mechanisms available to the industry, for example Austrade Export Development Grants and Export Credit and Finance Insurance.

Recommendation 9: *A new Australian Ethical Quality Mark should be devised, with a budget allocation of \$8 million, to reflect the incorporation of defined ethical standards relating to labour conditions, animal welfare and environmental sustainability in TCF production and supply chains. This will enhance consumer choice and confer competitive advantage on firms that achieve certification.*

The BSL supports the development of an Ethical Quality Mark for the Australian garment industry, as a positive step towards a framework for responsible business practice in the Australian TCF sector.

The TCF Review report highlights the Homeworkers Code of Practice and its ‘No Sweat Shop Label’ as an initiative which facilitates consumer choice in relation to ethical employment standards. The BSL recommends that accreditation to the No Sweat Shop Label should be the Ethical Quality Mark requirement for companies manufacturing in Australia.

However, this initiative only relates to garments manufactured in Australia. For the Ethical Quality Mark to meet international best practice, and truly reflect the manufacturing practices of the Australian industry, it needs to incorporate ethical requirements for companies manufacturing both offshore and onshore. The TCF Review report is unclear about how companies would gain certification for garments produced overseas.

The BSL *Ethical threads* research found that Australian companies have been slow to embrace both mandatory and voluntary mechanisms to protect workers. The research also found that companies which did monitor factory conditions in their international supply chains were mostly not meeting international best practice. Companies cited problems of access to suppliers, small manufacturing bases and limited organisational capacity as reasons for their limited uptake of CR. There was also a general view from research participants that government should support a strong CR framework to ensure that companies can compete in the global marketplace, attract investment and create decent employment. A key research recommendation was the establishment of a multi-stakeholder platform to promote and implement the uptake of the global dimensions of CR. The establishment of an Ethical Quality Mark creates an opportunity to realise such an initiative.

At the Brotherhood’s recent forum, the concept of an Ethical Quality Mark was one of the key ideas put up for comment. Of the 26 participants who commented on the Quality Mark proposal, none disagreed, 21 agreed and 6 agreed with minor changes. Similar to the feedback from *Ethical threads*, there was a view that, to be competitive, the Australian industry needed to create innovative sustainability models. There was also overwhelming support for an industry initiative with multi-stakeholder representation. One of the key drivers identified was a growing market for ethical products in Australia and internationally, and increased consumer awareness of ethical supply chain issues.

Further supporting the establishment of the Ethical Quality Mark was a suggestion at the forum to re-launch the 'Australian Made' campaign incorporating sustainability principles in the branding. To ensure participation in a branded ethical trading initiative, industry stressed the need for a well-designed logo to complement and not compete with participating companies' existing brand identity, and an effective marketing campaign to build consumer awareness, creating a business case for involvement.

Although there was support for the Ethical Quality Mark, participant feedback from the forum suggests the international sourcing component will need careful consideration. Many participants noted that developing and participating in these initiatives is complex and requires specialist knowledge and expertise. According to one speaker, 'There is no silver bullet solution to managing social compliance', due to the complexity of outsourcing arrangements in international TCF supply chains. This speaker also commented that 'No companies can unequivocally state that they have no gaps in the supply lines they manage'. A business representative raised concerns that asking companies to demonstrate compliance internationally would increase unit costs, and put pressure on profitability at a time when tariffs are to be cut to 5%. Two industry representatives argued that the Australian industry should focus on ensuring ethical compliance in Australia.

Forum participants put forward both ideas and potential barriers for developing corporate responsibility models and mechanisms that are relevant and responsive to the uniqueness of the Australian industry. Participants were clear that the model needed to be supported by a process that encouraged companies to go beyond doing no harm to improving the livelihoods of workers, their families and their communities. They were keen to move away from models developed unilaterally by companies to an industry-wide initiative that supports companies to continually improve. Some drew attention to numerous examples of established ethical sourcing initiatives in Europe and the US. There was a general view that we should not 're-create the wheel' in Australia, but rather should build upon or link to already established initiatives.

Critical issues relating to the Ethical Quality Mark and international sourcing raised at the industry forum

Building a best practice model

There was broad recognition that multi-stakeholder initiatives that involve trade unions and civil-society organisations as equal partners have proven more effective internationally than company CR initiatives developed unilaterally or business-controlled initiatives such as Worldwide Responsible Apparel Production (WRAP) and Business Social Compliance Initiative (BSCI).

Participants also highlighted that the international proliferation of differing codes of conduct and CR responsibility mechanisms is creating inefficiencies and confusion, particularly for suppliers who have to adhere to a multitude of codes. The Joint Initiative on Corporate Accountability and Workers' Rights Draft Code of Labour Practice (Jo-In code) was recommended to be adopted as the appropriate standard. This code, underpinned by the ILO Conventions, brings together the best elements of the codes of all the current major multi-stakeholder initiatives. The code development was an outcome of a CR pilot project, which produced the 'Jo-In Project Pack'. This is the set of documents developed to record the policies and direction of the Jo-In pilot project in Turkey. (See <<http://www.jo-in.org/about.html>> for more information about Jo-In).

In relation to auditing, there was a general view that certification and verification of company codes needs to be conducted by credible third-party providers. An industry body representative commented that members had noted that some quality assurance entities, in developing countries, do not have the same degree of regulation as in Australia. Participants stressed, however, that, conducting social audits is only one part of a corporate responsibility strategy: Audits alone do not

improve conditions for workers. It was also recommended that companies develop internal expertise to effectively manage and monitor labour rights issues in their supply chains.

A vital component of CR strategies was transparency: public reporting on social and environmental performance should be a key requirement. It was recommended that companies use the Global Reporting Initiative as the framework for sustainability reporting. Participants also recommended that ethical sourcing models should include independent evaluation and that findings be made public.

Continuous improvement and capacity building

According to participants, companies need assistance to develop CR strategies within their organisation and initiatives need to include specific capacity building programs for small to medium enterprises. This could include a mentoring program with larger organisations

There was also a view that CR models should facilitate continuous improvement. Corrective action plans should be developed to address issues in factories and companies should commit to working with suppliers to improve conditions. Stopping production with a supplier which is not meeting ethical requirements should be seen as a last resort.

To demonstrate and be confident that improvements are sustained requires capacity building for companies, suppliers, workers and workers' representatives to gain a collective understanding of workers' rights. Training and education should be a key component of any corporate responsibility initiative.

It was also suggested that innovative pilot programs be created to test new sustainable business models and that case studies of best practice should be made available to the industry.

Empowering local suppliers, workers and communities

There was overwhelming support for CR strategies going beyond 'doing no harm' by working with local labour, worker and community organisations to address the developmental needs of factory workers, their families and local communities and to contribute to the Millennium Development Goals. Participants suggested the following:

- Facilitate changes in companies' buying systems to build in rewards for factories that respect workers' rights—particularly their right to freedom of association—leading to improvements in factory conditions.
- Work with suppliers, workers and the community to brainstorm and identify projects that can improve worker and community livelihoods and enhance business profit.

One speaker stressed that in order for workers to exercise their rights there needs to be a good industrial relations framework where workers have the opportunity to organise and collectively bargain. It was also suggested that mechanisms where workers can give anonymous feedback about factory conditions without fear of retribution need to be built into CR models.

Linking to other initiatives

There was strong support for the suggestion that rather than establishing an Australian ethical sourcing initiative, companies should join one of the global multi-stakeholder initiatives that works to verify companies' code compliance. Examples given were the Fair Wear Foundation, Fair Labour Association or the Ethical Trading Initiative (ETI). There was particularly strong support for the ETI, with the exception of two NGOs which felt the ETI did not 'have teeth' as it was a learning initiative rather than a social compliance program involving accreditation. Smaller companies were concerned about the resources required to participate in the ETI. There was also support for exploring the possibility of establishing an Australian Chapter of the ETI. (Further information about the ETI was included in the BSL's's initial submission to the TCF Review.)

In summary, initiatives mentioned as good practice models included:

- Fair Trade Organisations (IFAT system) <<http://www.ifat.org>>
- Fairtrade labelling (Fairtrade cotton) <<http://www.fta.org.au>>
- Global Reporting Initiative <<http://www.globalreporting.org>>
- OECD Guidelines for Multinational Enterprises <<http://www.oecd.org>>
- UN Global Compact <<http://www.unglobalcompact.org>>
- SEDEX <<https://www.sedex.org.uk/bc/cm/site.php>>
- ILO/IFC Better Work Program <<http://www.betterwork.org/public/global>>
- Ethical Trading Initiative (ETI) <<http://www.ethicaltrade.org>>
- Fair Wear Foundation <<http://en.fairwear.nl>>
- Fair Labour Association <<http://www.fairlabor.org>>
- Jo-In <<http://www.jo-in.org/about.html>>
- Worker owned cooperatives
- Union-led initiatives

Government's role

Similar to the *Ethical threads* findings, participants believed that government needs to support industry to develop ethical trading initiatives. Two speakers highlighted corporate responsibility public sector policy development in the United Kingdom as good practice. Examples given included the government's support for the establishment and ongoing operations of the ETI; Gordon Brown's leadership around the Millennium Development Goals and the 'Business Call to Action' and the establishment of a Ministry of Corporate Social Responsibility.

Support for an Australian TCF ethical trading initiative would be an important step for the government, towards developing a CR policy framework. Reflecting on the feedback from industry at the forum, there is strong support for government assistance to develop an ethical sourcing initiative that incorporates both Australian and international production. However, the industry wants to ensure that the model developed is more than just a simple auditing initiative, but rather meets and exceeds international best practice in this area. To do this, the model will need to be developed in consultation with diverse industry stakeholders and build upon and link to other internationally recognised multi-stakeholder initiatives.

Recommendation 11: *Australian Government procurement policy should encompass capability building for Australian TCF firms and organisations so that they are in a better position to tender successfully for contracts both individually and in broader networks. In addition, consideration of value for money in tendering should take account of labour and environmental standards, as evidenced by the Australian Ethical Quality Mark. The Review notes and supports concern expressed about the US Berry Amendment, which excludes Australian TCF firms from the US defence apparel procurement market.*

The BSL strongly supports the inclusion of labour and environmental standards as part of the government tendering process for TCF products. These standards should apply to companies sourcing product both in Australia and overseas.

Recommendation 14: *The commitment to Part 1 of TCF SAP, which provides assistance to retrenched workers in the TCF industries, should continue to 2015, with a budget allocation of \$25 million, but preferably in an enhanced form to meet concerns expressed about its operation. There should be a greater role for the industry stakeholders in facilitating access by workers to*

employment and training services, and a feasibility study should be conducted into the potential contribution of a TCF group training company.

The BSL commends the review for recognising the concerns expressed by stakeholders regarding the implementation of Part 1 of the TCF SAP program. We urge that the findings from *Empty promises: a report on the Textile Clothing & Footwear Structural Adjustment Package (SAP) 1 July 2005–30 July 2006*, (Textile Clothing & Footwear Union of Australia 2006) should inform the development of the enhanced TCF SAP program.

The BSL also suggests that when developing the program, the successful outworker training model funded under the NSW Government's Behind the Label Strategy should be referenced. Key organisations including Asian Women at Work, and the NSW Branch of the TCFUA, who were involved in the development and delivery of the program, should be consulted.

The BSL supports the ongoing commitment to Part 1 of the TCF SAP program till 2015, but is concerned that the funding allocation has been halved for this period. While recognising that funding was not exhausted during the previous program period, we suggest that this was because the program model was ineffective (Textile Clothing & Footwear Union of Australia 2006) and not because TCF workers do not need re-training and employment services.

Recommendation 15: *Better protection should be provided to workers engaged in home-based manufacture of TCF products through both legislation and industrial awards, and steps should be taken to ensure that homeworkers whose work is performed for a single customer or business are deemed to be employees for the purpose of legislative and other entitlements.*

The BSL strongly supports providing better protection for home-based workers of TCF products through both legislation and industrial awards. We also support homeworkers being deemed as employees for the purpose of legislative and other entitlements.

However, we recommend the removal of the text 'whose work is performed for a single customer or business'. It is our understanding that outworkers may work for more than one employer. According to outworkers we spoke to as part of the *Ethical threads* research, the seasonality of workflows and a reduction in Australian manufacturing affect the consistency and quantity of work. To address this issue, many outworkers have more than one employer. Limiting the deeming provision to outworkers with one employer could exclude some outworkers from this important protection.

Appendix: Outline of forum ‘Fashioning a sustainable garment industry in Australia’ 26 November 2008

Speakers

- Ravi Fernando, Director, Corporate Branding & Strategic Corporate Responsibility at MAS Holdings Ltd, and UN Global Contact Focal Point for Sri Lanka (video)
- Professor Roy Green, Reviewer, Review of the Australian Clothing and Footwear Industries, and Dean, Faculty of Business, University of Technology, Sydney
- Mark Ingram, Executive Director, Business for Millennium Development
- Serena Lillywhite, Manager Sustainable Business, Brotherhood of St Laurence, and Convenor OECD Watch Australia
- Emer Diviney Research and Policy Coordinator, Sustainable Business, Brotherhood of St Laurence
- Dr Clive Sher, Medical Director, Pacific Brands
- Cameron Neil, General Manager, Fairtrade Labelling Australia & New Zealand
- James Ensor, Director of Public Policy, Oxfam Australia
- Alison Tate, International Officer, ACTU
- Ray Hartland, Manager, International Services, & Iftikhar Baig, Lead Auditor, SGS Australia

Participating organisations

Companies and industry bodies

The Council of Fashion Industries of Australia (TFIA); The Just Group; Material by Product; Country Road; Australian Fashion Partners (AFP); Feathers Boutique; LM Australasia; Alice Euphemia; Target Australia; Coles; Gorman Enterprises; Woolworths; L’Oréal Melbourne Fashion Festival; Clague Jeans; Rise Up Productions; Kmart

NGOs and unions

World Vision Australia; Brotherhood of St Laurence; Oxfam Australia; St James Ethics Centre; Uniting Church in Australia.

Government

Austrade; TCF Policy Group, Department of Innovation Industry Science & Research.

CR consulting firms & auditing firms

Net Balance; Australian Centre for Corporate Responsibility; Intertek

University

RMIT University; Monash University; University of Technology, Sydney (UTS)

References

Diviney, E & Lillywhite, S 2007, *Ethical threads: corporate social responsibility in the Australian garment industry*, Brotherhood of St Laurence, Melbourne, viewed January 2009, <http://www.bsl.org.au/pdfs/Diviney&Lillywhite_ethical_threads.pdf>

Textile Clothing & Footwear Union of Australia (Victorian Branch) 2006, *'Empty promises': a report on the Textile Clothing & Footwear Structural Adjustment Package (SAP) 1 July 2005–30 July 2006*, TCFUA, Melbourne.