



ANNUAL REPORT 2006-2007
BUSINESS SOCIAL COMPLIANCE INITIATIVE



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ABOUT THIS REPORT

WHAT IS THE BUSINESS SOCIAL COMPLIANCE INITIATIVE (BSCI)?

The BSCI is a common monitoring and qualification system to improve the working conditions in the global supply chain of retail, importing and brand companies. Our primary strength derives from the wide circle of our membership, which comprises more than 80 companies from 10 countries and involves thousands of suppliers worldwide. By coming together in a sector wide solution, our members acknowledge that working together against poor labour conditions is the most efficient way to reach sustainable improvement at the factory level. They recognise the benefit of a concerted action based on a common Code of Conduct and a single implementation procedure with uniform instruments.

WHY DOES THE BSCI EXIST?

In the context of globalisation and international competition, retail, importing and brand companies have outsourced the production of labour intensive goods to developing and newly industrialised countries, especially in Asia and Eastern Europe. This strategy is aimed at lowering costs and being closer to the production sites of raw materials. However, the working conditions in these sourcing countries are often poor. The increase in export production from which these countries have profited has not yet been translated into real improvement of the working lives of millions of people. While labour laws and policies often exist, national governments tend to be lenient when it comes to enforcement. Companies which source from these countries risk damaging their reputation, especially as consumers increasingly care about the working conditions under which the goods they buy are produced. Through joining the BSCI our members express their wish to do business with suppliers who take social compliance seriously.

WHAT DOES THE BSCI BELIEVE?

The BSCI believes that it is the role of governments in supplier countries to design laws protecting workers rights and to ensure that they are enforced. Other stakeholders such as trade unions also have an important role to play when it comes to the defence of

workers rights. Nevertheless, BSCI members assume their share of responsibility for the improvement of the working conditions under which their goods are produced. We also believe implementing proper social standards enhances productivity owing to more motivated workers, less staff turnover and a stronger management system. Besides creating a business case for suppliers and also for BSCI members, the pooling efforts and resources created by the BSCI put our members in a stronger position to require their suppliers to improve the working conditions in the sourcing factories. Finally, BSCI members also recognise the difficulties suppliers face in meeting labour standard requirements within the intense competitive climate in which they operate. Thus, the BSCI advocates a development oriented approach enabling the companies and the suppliers to work together on practical solutions to reach the required standards.

WHAT DOES THE BSCI DO?

This report will provide a comprehensive overview of our activities. Our system is based on the BSCI Code of Conduct, which needs to be implemented in the supply chain. Our standardised management tools and guidance documents help our members to implement the Code through the different steps of the external auditing process. To ensure continuous improvement, we organise trainings to raise the awareness of suppliers, try to empower workers and ensure sustainable change on the factory level. As a platform of companies, the BSCI also provides an unique structure in which our members can discuss and exchange best practices on social compliance.

USING THE G3 GUIDELINES

The structure and content of this report has been designed to meet the requirements of the Global Reporting Initiative (GRI). As G3 guidelines define the structure and general content of sustainability reporting of corporations, this report follows as closely as possible the G3 disclosures items but cannot respect them in all detail.

If after reading this report, you have questions about the BSCI, please contact us at info@bsci-eu.org.

THE GLOBAL REPORTING INITIATIVE (GRI)



The GRI is an independent institution based on a multi-stakeholder process involving a network of thousands from business, civil society, labour and professional institutions.

Collaborating with United Nations Environment Programme (UNEP) and the UN Global Compact, its mission is to develop sustainability reporting guidelines which are globally applicable. The Guidelines are for voluntary use by organisations who wish to report on the economic, environmental, and social dimensions of their activities, products and services. The BSCI is supporting the GRI as an Organisational Stakeholder (OS) and welcomes the contribution of the G3 guidelines to the development of a common reporting framework for corporate social responsibility.

www.globalreporting.org

THE UN GLOBAL COMPACT



The BSCI is also a member of the United Nations Global Compact through the Foreign Trade Association.

The United Nations Global Compact is an initiative launched by former United Nations Secretary-General Kofi Annan in 2000 to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on them. The UN Global Compact is based on the 10 principles, that are a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.

The Global Compact is not a regulatory instrument but rather a forum for discussion and a network for communication including governments, companies and labour, whose actions it seeks to influence and civil society organisations, representing its stakeholders.

www.unglobalcompact.org

“BSCI members assume their share of responsibility for the improvement of the working conditions under which their goods are produced”

THE FOREIGN TRADE ASSOCIATION



The BSCI has been created in 2003 under the auspices of the Brussels based Foreign Trade Association (FTA).

The FTA is the association for European commerce that specialises in foreign trade issues. It is committed to achieving its goal of a true free trade environment and it focuses especially on trade policy, quantitative restrictions, tariffs, anti-dumping proceedings and other trade barriers. For 30 years, it has supported its members, consisting of national trade associations and companies from all over Europe, by providing expertise and up-to-date information and by campaigning on their behalf against protectionist measures in the European and international arena.

www.fta-eu.org

FOREWORD

DEAR READER,

We are pleased to present the second Annual Report of the Business Social Compliance Initiative. The report underlines our commitment to transparency and aims at raising your awareness of the role of the BSCI in improving the working conditions in the global supply chain of commerce. It presents a record of what has been achieved in 2006 and at the beginning of 2007, and identifies the challenges we have set ourselves for the future.

The past year has brought achievements in many respects. The BSCI has increased its reputation as a leading common platform of businesses for corporate social responsibility. We have been chosen by the European Commission to participate in CSR training projects in China and in Turkey. In the context of the European Alliance for CSR, we have been asked to facilitate a European laboratory for supply chain issues. Thanks to this recognition, the BSCI has gained many new members from various countries and various types of distribution and services, thus allowing us to offer greater synergy for our members and suppliers involved.

2006 was also the year when the BSCI extended its activities from a monitoring and qualification system focusing on non-food industries to a flexible system applicable also to the primary production of food. With adapted tools embedded into the same system and based on the same principles, the BSCI tools can now be used for a tomato farm in Morocco, a toy factory in China as well as a T-shirt producer in India alike.

New audits and re-audits have shown us that there are similar non-compliance issues worldwide. Audits are necessary to ensure the transparency of the system and raise the awareness of the suppliers. However they are a limited tool when it comes to questions of freedom of association and discrimination.

Our goals for 2007 and 2008 reflect what we have learned. We have already conducted numerous awareness raising workshops in Asia in 2006 and we will continue to develop these activities to provide direct support to suppliers and ensure sustainable change at the factory level.

Another pillar for improved sustainability is the involvement of stakeholders in the supplier countries. With a more systematic involvement in the stakeholder round tables in seven supplier countries, the BSCI has taken an important step forward in this regard.

The favourable developments of the BSCI over the last months have shown clearly that the BSCI is moving in the right direction. However, working towards social compliance is a complex task which involves multiple actors and interests. Therefore we believe that it is of particular importance to create partnerships with other like-minded initiatives, enterprises and stakeholders and we hope to maintain an open and constructive dialogue with all interested parties.

We wish you a pleasant reading experience.

Brussels, May 2007



Ferry den Hoed
President



Jan A. Eggert
Secretary General

THE YEAR 2006 AT-A-GLANCE

A BROADENED MEMBERSHIP

Thanks to the many new member companies which have joined our initiative since last year's annual report, we have broadened our membership and now offer more synergies for our members and for the factories involved in the BSCI process. It has been proven that the BSCI system is applicable in various industries and not only in the textile manufacturing supply chain where it had started.

(➔ p. 12-14; p. 20)

AN EXTENDED SCOPE

The food module provides for the BSCI's implementation in the food supply chain including primary production. This tool broadens the scope of the BSCI's use, with adapted management instruments, but with the same basis and philosophy. The BSCI has thus become an interesting option for more companies who wish to ensure social standards are being met in their supply chain. (➔ p. 26)

MORE TRANSPARENCY

The BSCI audits have confirmed that the most important social compliance issues are working time, compensation, occupational health and safety. Most of the non-compliances can be related to a lack in management skills.

The results of the numerous re-audits conducted this year prove that the implementation of the BSCI system brings a real improvement to the working conditions in supplier countries for most social issues. Nevertheless, when it comes to freedom of association, discrimination and management practice, we consider that audits alone are not sufficient. Qualifications are a very effective way to bring sustainable change. In addition, further discussions with stakeholders and representatives of government, notably in the context of the BSCI Round Tables, can bring great improvement. (➔ p.24-25; p.27-28)

“The results of the numerous re-audits conducted this year prove that the implementation of the BSCI system brings a real improvement”

IMPROVED COMMUNICATION

Transparency and communication have been improved with the introduction of new communication tools such as newsletters, regular press releases and more information on the homepage. A comprehensive internal communication is key for smoother system implementation. More external communication serves a better and broader knowledge and recognition about the BSCI's goals and activities. (➔ www.bsci-eu.org)

MORE CAPACITY BUILDING

The development of more training activities and improved management instruments translated into many languages provides more direct support for factories and therefore more sustainability. The BSCI and its members have been active in numerous workshops and seminars in Bangladesh, China and Vietnam to broaden the capacities of factory managers, buyers and also government representatives to deal with social responsibility. (➔ p.21-23)

WORKING PARTNERSHIPS

We have been active in getting more partners on board in order to combine efforts, particularly with a view to fewer auditing and more common training activities. This is true notably for the toy and the electronic industry, governmental and non-governmental organisations as well as think tanks. The revision of the BSCI Code of Conduct and the System Description as a result of constructive dialogue with stakeholders is another visible sign of working partnerships. (➔ p 16-18)



OUR INITIATIVE



THE BSCI STRATEGY

WE WANT TO IMPROVE WORKING CONDITIONS IN THE SUPPLY CHAIN OF COMMERCE. OUR STRATEGY IS BASED ON 6 PILLARS:

COMMITMENT TO IMPLEMENTATION

Improving labour standards can only be achieved through a strong commitment to implementation from BSCI members. We request our members to commit themselves to involve 2/3rds of their buying volume or a minimum of 2/3rds of the suppliers from defined risk countries in the BSCI auditing process to be audited within 3 years after joining the initiative.

DEVELOPMENT ORIENTED APPROACH

We do not believe in a pass-or-fail logic to cease business relations with suppliers who are not respecting social requirements. We want to find sustainable solutions to the problems in a step-by-step approach. That is why we do not rely solely on audits. We consider that external audits are essential to get a clear picture of the situation on the factory floor in complete transparency. Nevertheless, social compliance can only be achieved if the monitoring is accompanied by support to the suppliers through training and qualification measures.

COOPERATION IN RETAIL MARKETS AND SUPPLIER COUNTRIES

To find sustainable solutions to the problems at the factory level, but also in entire sectors or countries, we need local expertise and advice. We are engaged to work in partnership with a wide range of stakeholders like trade unions, NGOs, suppliers

associations as well as local or national governments.

CONTINUOUS IMPROVEMENT OF OUR SYSTEM

Since the initiation of the BSCI in 2003, we have learned a lot about the practical challenge of implementing the BSCI. With regard to the complexity of our mission, we consider that there is always something to improve. Our members participate actively in our internal governance which aims at offering efficient structures for dialogue, learning and sharing of best practices.

The Members' Assembly is the principal decision-making body which meets three times a year to discuss issues related to long-term planning and strategic decision making activities, procedural issues and budget. Our members are also involved in various working groups which focus on specific and technical issues.

BSCI WORKING GROUPS

- WG System Development [Pilot Group]
- WG System Implementation
- WG Certification Bodies and Accreditation
- WG Qualification and training
- WG Primary Production
- WG Communication
- WG Members Acquisition

SA8000 AS OUR BEST PRACTICE

We consider the standard SA8000, developed by Social Accountability International (SAI), as our best practice. We encourage suppliers who meet all BSCI requirements to go for SA8000 certification.

FOCUS ON RISK COUNTRIES

Although there are many countries in the world where better working conditions would be needed, the BSCI cannot be involved everywhere. Therefore we are focusing on those sourcing countries which have been defined as risk countries on the basis of various criteria such as government structure, role of trade unions, GDP, corruption index etc. It concerns mainly developing and newly industrialised countries located in Asia, Africa and South America. However, BSCI members are free to decide on an individual basis to go beyond this defined scope and implement the BSCI system in non-risk countries.

SA8000

SA8000 is a social management system providing a factory certification that began in 1997. It is run by Social Accountability International, which is a non-governmental organisation based in New York and seeks to improve workplaces around the world. To fulfil its mission, SAI convenes all key sectors, including workers and trade unions, companies, governments, NGOs, socially responsible investors and consumers, to operate consensus-based voluntary standards. It accredits qualified organisations to verify compliance with its SA8000 standard.

www.sa-intl.org



THE BSCI CODE OF CONDUCT

BECOMING A MEMBER OF THE BSCI MEANS TO ACCEPT AND ADOPT THE BSCI CODE OF CONDUCT.

Its core social requirements reflect the most important international Conventions protecting workers rights:

- International Labour Organisations (ILO) Core Labour and other Conventions/ Recommendations,
- United Nations Universal Declaration of Human Rights,
- United Nations Convention on the rights of the Child,

- United Nations Conventions on the Elimination of all Forms of Discrimination,
- OECD guidelines for multinational enterprises,
- the UN Global Compact.

Our Code takes care of the following issues:

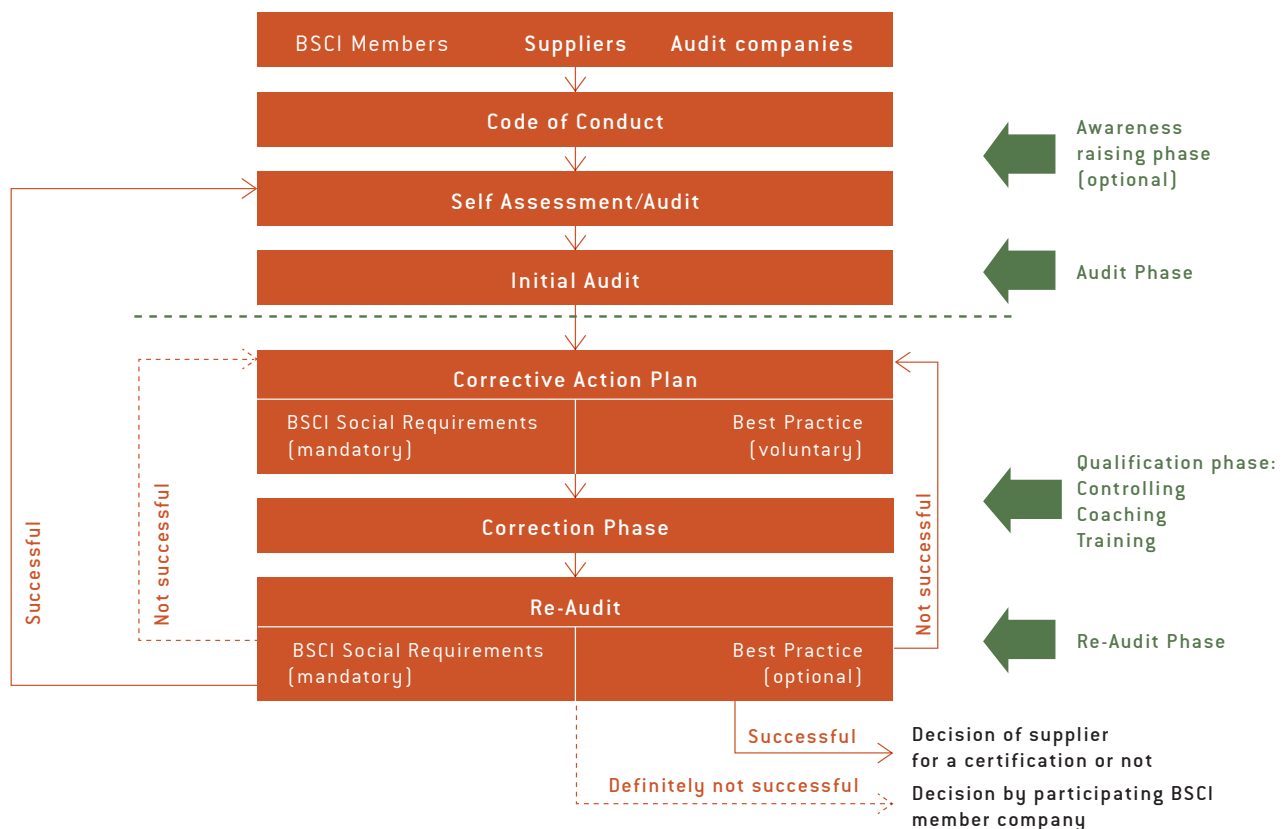
- freedom of association and the right to collective bargaining,
- prohibition of all forms of discrimination,
- prohibition of child labour,
- prohibition of forced labour and disciplinary measures,
- compensation: minimum wages/ living wages,
- working hours,
- health and safety at the workplace,

- environmental and safety issues,
- implementation of a policy for social accountability,
- establishment of an anti-bribery and anti-corruption policy.

The experience gained in implementing the Code of Conduct and the discussion with stakeholders have encouraged us to amend our Code of Conduct in 2006 in order to clarify some requirements. The new Code of Conduct, approved by the members in November 2006, provides more transparency and a better understanding of the BSCI system.

The Code is available on our website: www.bsci-eu.org

THE BSCI PROCESS



THE BSCI METHOD

WE ARE CONVINCED THAT REAL IMPROVEMENT OF SOCIAL STANDARDS CAN ONLY BE ACHIEVED IF COMPANIES SHARE WITH THEIR SUPPLIERS A BROAD AND EFFICIENT APPROACH BASED ON TRANSPARENCY AND CONTINUOUS DEVELOPMENT.

STEP 1: Transparency - Assessing the need for Development

ADOPTING THE BSCI CODE OF CONDUCT

It is crucial that the people working at our members' companies and their supply chain understand and share the ethical sourcing strategy required by the BSCI. We request our members as a first step to adopt, sign and disseminate the BSCI Code of Conduct internally and among their suppliers to inform about the ethical sourcing policy of the company.

RAISING AWARENESS THROUGH SELF-ASSESSMENT

The better the preparation of the supplier, the faster and easier the audit can be conducted. Our members are advised to prioritise their suppliers according to the risk concerning their social performance. Once the list of suppliers has been set, our members organise a Self-Assessment of the suppliers prior to the audit. The objective is to introduce them to the practicalities and modalities of the BSCI and provide our members with information about potential risks and the structure of the supply chain. To support this process, awareness raising workshops are held for suppliers by the BSCI.

GENERATING TRANSPARENCY

The BSCI audit procedure is designed to benchmark suppliers' social performance against the BSCI Code of Conduct. Our members are required to organise an external initial audit every three years. If the initial audit reveals deviations from the BSCI requirements, re-audits are carried out at the latest twelve months after the initial audit.

All audits are exclusively conducted by SA8000 lead auditors of SAI-accredited auditing companies. The BSCI has signed a framework contract with currently

ten auditing companies to ensure the respect of the BSCI's requirements with regard to the skills of the auditors, notably BSCI experience but also region and issue-specific expertise, including command of the local languages.

ALGI - Global Compliance Solutions
BVQI - Bureau Veritas
CSCC - Cal Safety Compliance Corporation
DNV - Det Norske Veritas
Intertek - Intertek Testing Services
RINA S.P.A - Registro Italiano Navale Group
TUV Asia Pacific Ltd.
SGS-ICS - Société Générale de Surveillance
TUV Rheinland Group
TUV Süd South Asia

EMPLOYING SYSTEMATIC MANAGEMENT TOOLS

Throughout the BSCI procedure, a number of management tools and instruments are used which aim at guaranteeing a high level of comparability, transparency and consistent quality of auditing:

- The BSCI Audit Questionnaire stipulates the detailed criteria of the BSCI based on its Code of Conduct. It also includes the highest attainable criteria of SA8000.
- Audit results are documented in the Social Audit Report and the Social Re-Audit Report.
- The Corrective Action Plan (CAP) is a target agreement which prescribes corrective actions whenever a supplier fails to meet the BSCI criteria during the audit. Every single corrective action has to be implemented within a fixed time frame. Once the supplier has implemented all the BSCI criteria, we encourage them to proceed towards SA8000 certification.

SHARING RESOURCES

One of the crucial tools is the BSCI database in which all supplier profiles and information on auditing is entered and shared exclusively between BSCI Members. Sharing this information is important for our members as it avoids unnecessary and costly multiple audits. In order to protect suppliers' and members' core business data, access is restricted. The database also helps to track non-compliance issues thereby highlighting where trainings of suppliers are necessary.

STEP 2: Development - Qualifying for sustainable change

Audits give a valuable picture of the code compliance of a supplier at a certain point of time but they do not make the improvements on the factory floor. To ensure sustainable change, it is important that BSCI members and their suppliers develop the knowledge and skill to understand the BSCI Code of Conduct and how to implement it. Therefore we believe that continuous and consistent information seminars, development measures and capacity-building measures are needed. We accord an increasingly important attention to qualifying our members and their suppliers.

The success of the qualification process is appraised through re-audits. If necessary, additional corrective actions are incurred. Through this interplay of auditing and qualification, the BSCI is seeking to improve effective changes on the factory floor.

TRAINING BSCI MEMBERS

We organise regular information seminars at our headquarters or at the members' offices to provide our members' staff with the necessary information about the BSCI: we encourage our members to involve the CSR department, the communication department, the quality department of companies but we underline the necessity to involve the buyers as they have the closest contact with the suppliers.

SUPPORTING SUPPLIERS

The BSCI runs different activities to support its members' suppliers, notably one-day awareness-raising workshops which aim at introducing the BSCI monitoring process and core social requirements. These workshops gather suppliers who have not yet been audited under the BSCI Code.

In 2006/2007, the BSCI has focused on China, Vietnam and Turkey as important sourcing markets for BSCI members. We have conducted awareness-raising workshops gathering together nearly 1500 BSCI suppliers.

“We accord an increasingly important attention to qualifying our members and their suppliers”

We also particularly appreciate being chosen in 2006 by the European Commission to participate in an EU-China project aimed at improving the knowledge and implementation of CSR in textile and apparel production in China. This project has led to CSR awareness conferences about the benefits of CSR and in-depth training on working time, wage, human resources management and health and safety for management and workers.

Through these training measures, we assist suppliers in implementing the corrective actions defined during auditing. The BSCI Management Manual, currently available in 9 languages and in 2 languages for food suppliers, is a valuable source of information to help them meet the expected requirements of the BSCI system.



THE BSCI MEMBERS



THE BSCI MEMBERS



AMAZING WHAT A
LITTLE LIGHT CAN DO



NILSONGROUP

DIN SKO / SKOPUNKTEN / NILSON / RADICAL SPORTS / JERNIS



DÜSSELDORF



POLARN O. PYRET



SIMBA · DICKIE · GROUP



SPRINGHILL TEXTILE AB



Textile Importers' Association in Sweden



WWW.BC-EUROPEANSTYLE.COM



The latest list of BSCI
Members is available
on our website.

THE BSCI MEMBERS

THE BSCI HAS A LARGE, VARIED AND GROWING MEMBERSHIP.

Our members are active in different business sectors which include textile, leather and shoes, jewellery and fashion accessories, toys and premiums, sport articles, furniture and building material, food.

Through BSCI membership, our members seek to source responsibly. They believe that by joining forces via the BSCI they have more economical power to ensure that workers in their supply chain are treated decently. They also believe that good working conditions are not only part of basic human rights but are also to the benefit of businesses, in terms of productivity, motivation and reputation.

Based on the experience we have gained so far, we encourage our members to undertake useful activities to strengthen the social commitment of their company.

STICK TO THE COMMITMENT

BSCI members are asked to commit themselves annually to involve a certain number of suppliers in the BSCI auditing process. They are also requested to share the information concerning the suppliers in the BSCI database. In order to judge the performance of our member companies, we check carefully that they stick to their commitment.

INVOLVEMENT OF TOP MANAGEMENT

Corporate reputation rests on the shoulders of top management. Therefore, we encourage our members to inform regularly the top management of the company about the BSCI. Moreover, this engagement from the top helps in implementing the company's commitment.

ENGAGE TIME WITH THE BSCI

The BSCI membership means various day-to-day responsibilities to implement the BSCI system. Our company members choose a responsible contact person in their company to be responsible for the implementation of the BSCI. The contact person is also involved in the BSCI governance by participating in the BSCI Members' Assembly and Working Groups.

“Good working conditions are also to the benefit of businesses, in terms of productivity, motivation and reputation”

INTEGRATE THE BSCI CODE INTO CORE BUSINESS

The BSCI recommends that its members integrate the BSCI Code of Conduct into core business practices, especially when it comes to buying activities. Integrating social consideration into core business practices can be done by various activities like training buying staff, integrating the Code into commercial contracts with suppliers, assessing the social aspects as part of total quality rating of new suppliers etc.

APPLY A DEVELOPMENT APPROACH

The BSCI believes in a development approach. Instead of a pass-or-fail method, we prefer to recommend immediate corrective measures to improve the situation if non-compliances are found. Termination of business relations should only be the last resort.

CAPACITY BUILDING IS A KEY ACTIVITY

To ensure sustainable change, we recommend to build capacity among employees and suppliers, especially through activities such as awareness-raising workshops and training programmes.

COMMUNICATE ON THE INVOLVEMENT

The BSCI advises its members to communicate about their involvement in the initiative to ensure that everyone understands and shares the values of the company. It includes internal communication notably through the staff magazine and external communication through the Annual Report of the company and the website.



OUR STAKEHOLDERS

INVOLVEMENT OF STAKEHOLDERS IN RETAIL MARKETS

THE CONCEPT OF CSR IS ONLY SUCCESSFUL AND SUSTAINABLE IF STAKEHOLDERS ARE ENGAGED IN THE PROCESS. WE ARE IN THE PROCESS OF FINALISING THE STAKEHOLDER DIALOGUE, DEDICATED TO CONSTRUCTIVE DISCUSSIONS WITH EXTERNAL STAKEHOLDERS OF RETAIL MARKETS.

MEMBER COMPANIES - A FUNDAMENTAL PART OF THE BSCI

BSCI members are building one important part of the groups involved in the improvement of working conditions in their supply chain. The member companies have committed themselves to involve their suppliers in the BSCI process. They not only bring in their experience but relay the importance of respecting social standards vis-à-vis their supplier and in the dialogue with other responsible players.

TRADE UNIONS - THE REPRESENTATION OF WORKERS

Trade unions play an important role in the social compliance dialogue. The federations on the international and European level support their affiliate unions in the supplier countries in their work to lead constructive and open industrial relations. Having recognised this, the BSCI is seeking to develop greater exchange with them.

NGOS - THE CIVIL SOCIETY INTERESTS

NGOs and increasingly consumer organisations, investors and rating agencies are raising the need for companies sourcing in risk countries to take over their social responsibility. They push companies to make more efforts to source responsibly. The BSCI estimates that constructive criticism is necessary and helpful and contributes to practical improvement.

GOVERNMENTS - THE POLITICAL SUPPORTERS

Governmental organisations on the European and national level are particularly important in the CSR discussion as they support voluntary business initiatives like the BSCI in order to have more impact. In this connection, the European Commission is supporting BSCI's efforts financially to train suppliers of BSCI members. The setup of BSCI activities has also been supported by national governments such as the Finnish government in Vietnam, the Swiss government in Morocco or the German government in various sourcing countries.

CASE STUDY 1- THE SUPPLY CHAIN LABORATORY

Besides BSCI members, many other globally sourcing companies are taking over their responsibility to improve labour conditions in their supply chain when necessary. The European Commission has recognised the success of these schemes by underlining the voluntary nature of CSR in its last communication on this topic in March 2006. It has highlighted this aspect in particular by proposing a European Alliance for CSR in which companies gather and work on concrete projects to enhance the impact of their social responsibility together with stakeholders.

In the framework of this European Alliance, 18 so-called "laboratories", supported by CSR Europe, have been formed on specific CSR related topics. The BSCI facilitates the "laboratory on supply chain issues", and we welcome this opportunity to cooperate with other partners and create more synergies in our common efforts. Discussions in the laboratory with companies like BASF, Hewlett-Packard, Titan, Volkswagen and others are dynamic and show that synergies can be achieved throughout different industry sectors. The partners in the laboratory will present an action plan at the end of 2007 outlining detailed points of common steps to enhance awareness and implementation of social standards worldwide.

GREATER COOPERATION TO BROADEN THE COALITION FOR COMPLIANCE

The BSCI continues its discussions with other systems and initiatives with similar objectives in order to find ways to cooperate more closely. The aim is to broaden synergies and create a smoother environment for suppliers to meet social standards.

CASE STUDY 2 – REVISION OF THE BSCI CODE OF CONDUCT

Stakeholders have provided valuable feedback about the BSCI Code of Conduct and the BSCI System Rules and Functioning. This has contributed to the revision of these two basic documents which were approved in November 2006 and February 2007. This exercise has been an example of good cooperation in systemic questions.

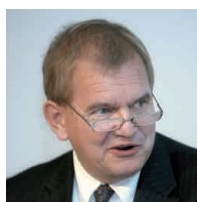
The BSCI is looking forward to continuing its fruitful dialogue with these important players in the CSR field. Besides, discussions about a more formal engagement of stakeholders in the BSCI system on the European level are ongoing.



Günter Verheugen,
Vice-President
of the European
Commission

“A greater commitment to corporate social responsibility is part of the drive for a more competitive Europe. It is also an important factor in the preservation of our economic system as we face the challenges of the 21st century.

I am convinced that tomorrow's marketplace will reward the ability of enterprises to understand and meet the expectations of society. Successful companies, large and small, will be those that will have risen to the challenge of integrating CSR into their business strategy and purpose. This is why the European Commission has called on the business community to demonstrate a greater commitment to CSR. The response from European enterprises so far has been encouraging, not least with the launch of the European Alliance on CSR.



Jan Furstenborg,
Head of UNI
Commerce

“Having followed the development of the BSCI since its beginning in 2003, I am impressed how many companies have joined the initiative and engage themselves to ensure proper and decent social conditions in their supply chains. There is always room for a continued development but a lot of work has already been done and I consider the BSCI as a serious approach to CSR. Regarding the BSCI Method, I believe that the approach to train, counsel and advice the producers and to take

I attach great importance to the work of the Alliance «laboratories», and I am pleased to see that the BSCI itself is closely involved in the laboratory on the supply chain.

I welcome the work of the BSCI and of the enterprises that contribute to it. Programmes such as this help to raise awareness of the importance of social and environmental standards in developing countries. This is important for the European Union because it reflects values that we wish to project globally. It is also important because it helps to create a more level global playing field.

Looking to the future I would encourage the BSCI and other stakeholders to find ways to work together to further strengthen this initiative. The involvement of a broad cross-section of stakeholders could further enhance the BSCI's credibility, to the advantage of all: buyers, suppliers, civil society organisations and trade unions. Europe has set itself the goal of becoming a global pole of excellence on CSR. We very much hope that the BSCI will help us to achieve that objective.”

sanctions only as a last resort is highly responsible and supports the very essence of what I, as a representant of the workers in retail and distribution, am trying to do: to improve the situation of the often very disadvantaged people concerned. I consider the full respect of the freedom of association and the right to collective bargaining as essential because through trade unions, workers can monitor in a very effective way the implementation of all the other requirements included in the BSCI Code of Conduct. Finally, what I hope is that all participating companies respect the same minimum standards for their own personnel, including freedom of association of course. This is essential for the credibility of the whole CSR approach.”

INVOLVEMENT OF STAKEHOLDERS IN PROCUREMENT MARKETS

SUPPLIERS: THE FOCUS OF THE BSCI

The supplying companies of BSCI members in the various sourcing markets are another important group in this discussion – they are the focus of our activities. Their concerns and their suggestions play a key role in the whole process. This includes both management and the workers in the factories.



Erbil Cihangir,
Educational Director
Istanbul Textile &
Apparel Exporters'
Association
(ITKIB)

"ITKIB has started working in close cooperation with the BSCI in the context of the Turkish Round Table of Stakeholders which aims at facilitating contacts and exchange among government, business and workers representatives, NGOs and suppliers. In 2007 and 2008, we are going to cooperate through the organisation of an EU supported CSR training programme for the management of Turkish factories. At ITKIB, we regard the BSCI as a very useful initiative. It provides a practical and efficient system for Turkish suppliers to improve their social compliance thus helping Turkey to use CSR performance as an economical advantage and to keep its textile industry competitive."

ROUND TABLE: THE FORUM FOR LOCAL STAKEHOLDERS

Round Tables in sourcing markets, gathering representatives from government, business, trade unions and NGOs play a key role in the BSCI process. They are the local actors who have the necessary expertise about local laws and the respective political, cultural and economic environment to help find solutions for sustainability of social standards implementation.

Especially in the most important sourcing markets of BSCI members, China, India, Turkey and Bangladesh, but also other countries, these Round Tables meet regularly and discuss current challenges, projects and solutions which are tailor made for the country. It is not always easy to create a forum where participants discuss openly as it is not a typical part of the culture in many countries.



Nico Roozen,
Director
of Solidaridad

"Solidaridad is planning to cooperate with the BSCI in the context of the implementation in Southern Africa of its primary production module. We consider the BSCI as a useful CSR initiative through which companies commit themselves to improve their ethical sourcing policy. We are keen to see BSCI adopt baseline criteria which can be applied to all kinds of business across the world. From our perspective this is a step onto the pyramid of change towards increased corporate social responsibility."

However, after some years, the local stakeholders have built up good relations based on trust and the spirit of cooperation as they all have a common goal – improving working conditions and contributing to smooth international trade relations.

GOVERNMENTS AND LOCAL TRADE UNIONS: KEY ACTORS

National and local governments are responsible for enforcing the laws they have set themselves, taking into account of ILO and other international conventions. The trade unions and other worker representations are responsible for negotiating solutions for better working conditions in the factories. Therefore governments and local trade unions have a particularly central role on the local level. They often need the input and the support of other stakeholders, including the BSCI, to better take over their responsibility.

In the future, we would like to see the BSCI complementing and expanding our goal of the mainstreaming of Fair Trade. To function effectively, BSCI needs to become a broadly applied Social Compliance standard adopted by supermarket chains as they have the buying power to influence production worldwide. In this context, we certainly do expect to see the interests of producers and farm workers upheld. We look forward to doing more work with the BSCI and would welcome a broader involvement of NGOs and trade unions in the initiative as well as major multiples and corporations."



OUR PROGRESS

GENERAL OVERVIEW

MAPPING PROGRESS

The implementation of the BSCI system occurs on a worldwide scale. For an overview, the following pages describe the most important BSCI procurement markets and highlight common non-compliances encountered during auditing.

LARGER SCOPE

In 2006, the BSCI has gained new members thus broadening the scope of synergies which are beneficial for the factories involved in the system and BSCI members. Having started in the textile sector, the BSCI has been involving more factories in shoe manufacturing and toys and will involve also other product groups like hard goods and primary production in agriculture. The BSCI management tools enable the member companies to involve their suppliers from almost any sector in the BSCI.



“The number of audits has risen owing to the growing membership, as has the number of re-audits”

AUDITING

The number of audits has risen owing to this growing membership, as has the number of re-audits. The rise has been slower than initially expected, however this can be explained by the fact that the “old” BSCI members needed to focus first on re-auditing their suppliers and qualification measures before initiating first audits on a larger scale again. Besides, the new BSCI members need some time to organise themselves and get more transparency about their supply chain before auditing can start. In 2006, 601 initial audits and 140 re-audits have been performed in the BSCI. Since the operational start of the BSCI in 2004, this makes 1613 initial and 375 re-audits to date.

The newly SAI-accredited auditing company TUV Süd has signed the framework contract with the BSCI and also performs BSCI audits now. Although the auditing has become smoother in the last months, the process still needs a lot of coordination between the BSCI, its members, auditing companies and suppliers.

SAI has agreed to witness BSCI audits in order to improve auditing quality and to provide external verification to BSCI auditing. Several audits have been performed in early March 2007. The outcomes need to be assessed and will be shared in a transparent way.

PROGRESS PER COUNTRY

BANGLADESH

Bangladesh is a highly important sourcing market but struggles with competition from China and India. Management practices have improved, helped by trainings initiated by BSCI member companies and others. These trainings have focused on typical non-compliances and involve management and workers. However, working time and living wages are still the major issues and require effort. The high number of trade unions in the garment sector creates a difficult framework for fruitful discussions. Following violent protests of workers in spring 2006, the Bangladeshi government has also undertaken efforts to improve labour conditions.

Stakeholder Dialogue: CSR trainings, cooperation with the labour inspection of the Ministry of Labour and Employment, social compliance monitoring officers from business associations, revision of the labour law, management practices, compensation, working time.

CHINA

China is by far the largest and most important sourcing market for BSCI members. By switching from state-owned companies to foreign investment, China is facing an increasing need to implement social standards. Recurrent non-compliances are related to poor management practices; working time and compensation being the largest challenges to tackle. Owing to the lack of free trade unions, freedom of association and collective bargaining remain other problematic and politically delicate issues. High staff turnover but also shortage of staff create problems for an efficient running of the factories.

CSR has been integrated prominently in the current 5-years plan of the government. However, China is eager to bring labour law up to international standards, thus the demand of Chinese managers to improve social standards is boosting awareness about the problems, but also the possible solutions. The Chinese National Textile and Apparel Council (CNTAC) has launched a Code of Conduct for the Chinese textile industry (CSC9000T) which also refers to the BSCI. It does not meet all BSCI requirements yet, but has to be seen

BULGARIA

Bulgaria is a small sourcing country for BSCI members. The industry is well developed, however, management practices, documentation and working conditions still need improvement. The growing interest for CSR has led to the creation of a National Award for the socially responsible enterprise. Bulgaria joined the EU in 2007.

Stakeholder Dialogue: practices, documentation, working conditions still need improvement, labour law and European legislation in the light of the EU accession.

as a good step in the right direction. Together with the European Commission and the CNTAC, the BSCI participated in several training activities throughout 2006. These focused on awareness about the benefits of CSR and in-depth training on the main non-compliances for management and workers.

BSCI Activities

2 Awareness Raising Workshops for Suppliers
(5 / 6 April 2006 Nanjing)

Auditor Workshop (7 April 2006 Nanjing)

EU trainings

12 July 2006 Beijing – CSR Symposium for awareness raising of government and factory representatives

11 / 12 November 2006 Humen (Guangzhou)

14 / 15 November 2006 Shishi (Fujian)

17 / 18 November 2006 Haining (Zhejiang)

On an individual basis, BSCI members also conducted various trainings for suppliers.

Stakeholder Dialogue: Revision of labour law, CSC9000T, discussion about “Harmonious Society”, more CSR researches, CSR as a business case.

INDIA

India is among the three leading sourcing markets for textiles and therefore under the scrutiny of the BSCI. Many developments are encouraging and the relatively high improvement rate after the re-audits is a good and promising sign. However, improvements are still needed with a view to management practices, working time, compensation and health and safety. Unfortunately there are some signs which indicate that child labour is still a big problem in this large country. Discrimination is another problematic topic, also owing to the caste system but this is difficult to track in audits. Also the large informally employed sector is a field of various non-compliances.

Stakeholder Dialogue: Greater stakeholder dialogue on local level (Delhi, Chennai, Kolkata, Mumbai), government pushes projects on national, provincial and enterprise level to incorporate CSR in policies, strategies and practices, create a business case, sustainability reporting, international exchange.

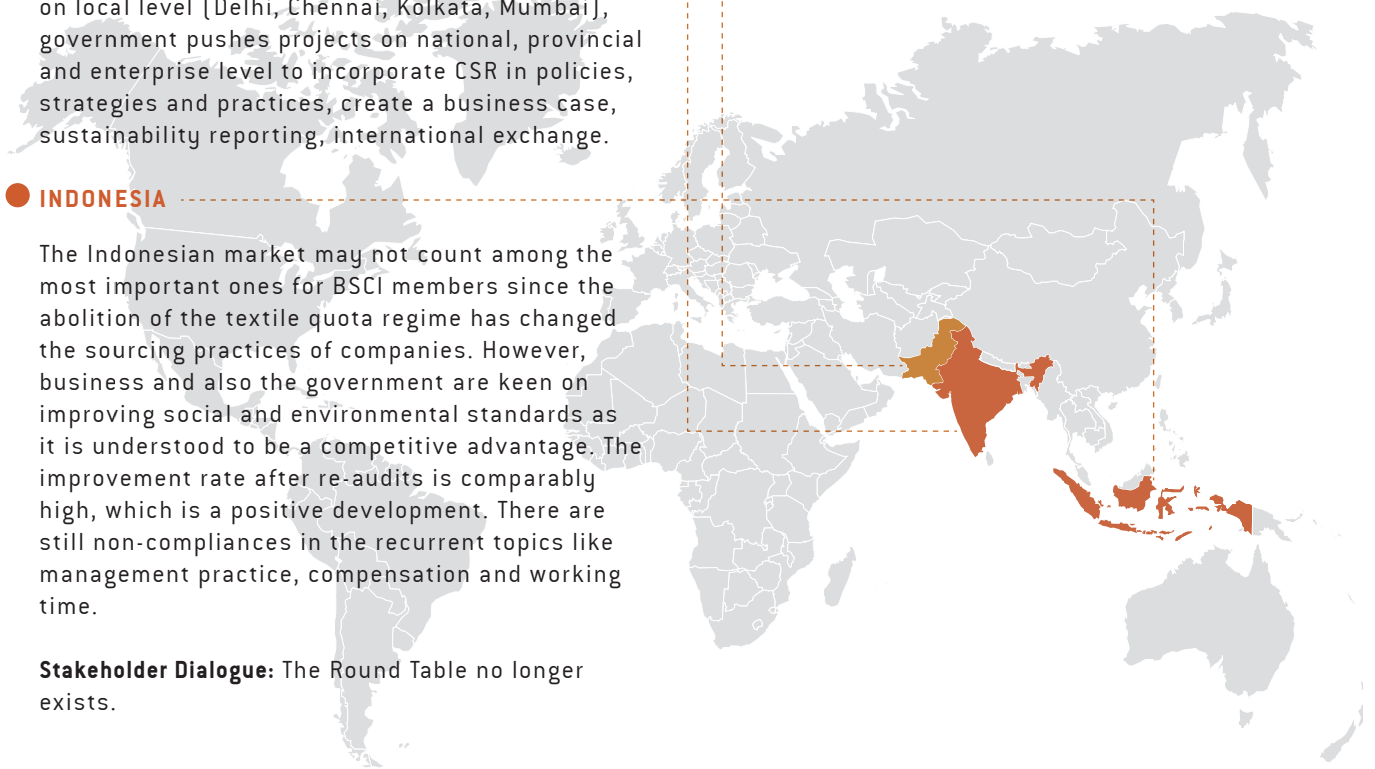
INDONESIA

The Indonesian market may not count among the most important ones for BSCI members since the abolition of the textile quota regime has changed the sourcing practices of companies. However, business and also the government are keen on improving social and environmental standards as it is understood to be a competitive advantage. The improvement rate after re-audits is comparably high, which is a positive development. There are still non-compliances in the recurrent topics like management practice, compensation and working time.

Stakeholder Dialogue: The Round Table no longer exists.

PAKISTAN

Pakistan has seen a development which is ambivalent. On one hand the market has lost importance for sourcing companies, thus only very few audits have been conducted. On the other hand, the engagement of stakeholders and in particular the government is remarkable. The Round Table has been taken over by the National Institute for Competitiveness and the Pakistani government has started a project to enhance SA8000 in the country. Owing to the few audits performed in Pakistan, it is not possible to provide representative comments on the developments.



ROMANIA

Romania is a small sourcing country for BSCI members. Very few BSCI audits have been performed in 2006. The level of compliance is rather good, but some problems still exist particularly concerning working time. The accession to the EU in 2007 is expected to bring further positive changes.

Stakeholder Dialogue: The Round Table has been successful. Although there were ongoing discussions about multiplying this approach, the Round Table has been dissolved.

THAILAND

Thailand had shown a quite positive social performance, also endorsed by the Thai Labour Code. However, on the basis of the very few BSCI audits in 2006, it is not possible to draw any representative conclusions about the state of play.

TURKEY

Turkey is among the three leading sourcing markets for BSCI members. Being a neighbour to the EU, it provides for logistical advantages, but the Turkish industry fears the growing competition from China. Turkish textile manufacturers have expanded their offshore production and subcontract more in countries of the Near East and Eastern Europe. Most recurrent non-compliances are related to management practices resulting from the large amount of subcontracting, documentation (double bookkeeping), compensation and working time. Because of the legislation, which makes it difficult to join unions, freedom of association is also a problematic issue. Competition among stakeholders, especially trade unions, and the Turkish government's lack of sufficient interest in CSR are hampering the good potential of the country.

With the support of the European Commission and in partnership with the Istanbul Textile and Apparel Exporters' Association (ITKIB) and Social Accountability International (SAI), the BSCI will conduct a training programme for 80 factories, including subcontractors, in 2007 and 2008. It will focus on the specific issues of management practices and connected non-compliances as well as freedom of association. With local trainers and specific learning material, factory managers will be

trained in basic and advanced training sessions of 2 days each. The development will be evaluated and the 5 top factories will in addition receive technical assistance on their premises. There will be closing conferences in Istanbul and Brussels in early 2008.

Stakeholder Dialogue: Keeping Turkish industry competitive, government involvement, labour law, organisation of the Round Table, BSCI training project.

VIETNAM

Vietnam is especially important for shoe retailers in the BSCI, and after awareness workshops in April 2006, additional audits have been conducted. They show that in particular, management practices, compensation and working time are problematic and even remain a concern after re-audits. Although based on relatively low number of re-audits, it seems clear that the improvement of social standards in Vietnam need a thorough follow-up.

BSCI Activities

Awareness Raising Workshops for Suppliers
(10 April 2006 Ho Chi Minh City)

Auditor Workshop

(11 April 2006 Ho Chi Minh City)

BSCI members carried out trainings in partnership with local stakeholders.

Stakeholder Dialogue: Discussions are ongoing as to whether the originally established Round Table will be continued.

OTHERS

In addition to the market described above, several audits have been conducted in Botswana, Cambodia, Egypt, Estonia, Hungary, Israel, Jamaica, Jordan, Kenya, Korea (South), Lithuania, Madagascar, Malaysia, Mauritius, Morocco, Poland, Slovakia, Slovenia, Taiwan, Ukraine, UAE, Uruguay. Their results have been summarised for a reasonable statistical basis.

RESULTS OF AUDITS AND RE-AUDITS*

	Bangladesh		Bulgaria		China		India		Indonesia		Pakistan		Philippines	
	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit
Good (Total)	5	7	3	5	27	35	26	43	1	0	4	1	0	0
Improvements Needed (Total)	21	10	19	20	135	19	40	10	5	0	5	0	2	0
Non Compliant (Total)	125	32	1	0	522	48	158	14	34	1	11	1	0	0
Total	151	49	23	25	684	102	224	67	40	1	20	2	2	0
EMPLOYEES	164735	47925	5850	5167	310055	54475	57827	18114	44403	5104	20325	3900	269	0

Results of initial audits

	G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA
B.1 Management Practice	33	70	48	1	3	19	1	0	299	146	238	2	67	39	118	2	7	4	29	0	7	4	8	1
B.2 Documentation	33	100	18	1	3	20	0	0	101	495	87	2	52	94	78	2	5	28	7	0	5	11	4	0
B.3 Working Time	38	19	94	1	17	5	1	0	166	92	426	1	89	41	90	6	4	6	30	0	11	4	5	0
B.4 Compensation	28	23	98	3	18	4	1	0	151	85	447	2	86	38	99	3	11	5	24	0	9	5	6	0
B.5 Child Labour	130	17	4	1	22	0	0	1	439	198	45	3	181	35	6	4	39	1	0	0	19	1	0	0
B.6 Forced, Prison Labour/ Disciplinary Measures	139	4	8	1	22	1	0	0	607	10	65	3	210	11	2	3	39	1	0	0	20	0	0	0
B.7 Freedom of Association/ Collective Bargaining	120	28	3	1	15	7	0	1	507	147	23	8	135	68	18	5	21	18	1	0	9	9	2	0
B.8 Discrimination	148	3	0	1	22	1	0	0	670	4	9	2	215	6	3	2	38	1	0	1	18	1	1	0
B.9 Working Conditions	134	11	6	1	21	2	0	0	628	47	8	2	177	33	14	2	38	2	0	0	14	5	1	0
B.10 Health and Social Facilities	47	86	16	3	7	16	0	0	301	352	29	3	98	103	23	2	10	28	2	0	10	6	4	0
B.11 Occupational Health and Safety	22	80	49	1	3	19	1	0	140	414	124	7	63	82	78	3	8	23	9	0	4	9	7	0
B.12 Dormitories	6	2	0	144	1	0	0	22	295	182	16	192	5	13	8	200	5	1	0	34	3	0	1	16
B.13 Environment	97	33	21	1	16	7	0	0	541	122	16	6	143	55	21	7	35	4	1	0	13	7	0	0

	G	IN	NA	G	IN	NA	G	IN	NA	G	IN	NA	G	IN	NA	G	IN	NA	G	IN	NA
C.1 Policy	2	148	2	0	23	0	36	626	23	13	192	21	4	35	1	3	17	0	0	1	1
C.2 Planning und Implementation	2	147	3	0	22	1	33	629	23	8	196	22	2	38	0	3	17	0	0	1	1
C.3 Management Review	2	147	3	0	23	0	31	625	29	7	198	21	2	38	0	4	16	0	0	1	1
C.4 Control of sub-cons and suppliers	1	149	2	0	23	0	35	616	34	13	192	21	5	35	0	1	19	0	0	1	1
C.5 Control of homeworker	0	0	152	0	0	23	8	20	655	2	17	207	3	2	35	1	0	19	0	0	2
C.6 Compensation	2	147	3	6	17	0	158	501	25	14	189	23	1	39	0	9	11	0	0	1	1
C.7 Child Labour	51	89	12	20	3	0	106	540	37	33	170	23	11	7	22	6	14	0	0	1	1
C.8 Evasion	127	0	25	14	8	1	638	21	26	115	86	25	22	2	16	16	4	0	1	0	1
C.9 Outside Communication	3	147	2	1	22	0	43	618	24	11	194	21	2	38	0	2	18	0	0	1	1

G Good – No deviations from requirements or only minor deviations and full protection of employees is given.
IN Improvements Needed – Deviations in the minority of requirements and no crucial points.
NC Non compliant – Deviations in the majority of requirements or / and in crucial points.
NA Not applicable – Requirements do not match the company structure.

*Results as of 1st April 2007

Romania		Thailand		Turkey		Vietnam		Others	
Audit	Re-audit	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit	Audit	Re-audit
0	2	0	4	50	40	1	3	2	4
6	0	7	2	37	13	24	3	33	10
6	1	16	2	188	34	34	6	65	5
12	3	23	8	275	87	59	12	100	19
3224	1592	12934	1419	43077	11677	65139	19359	64719	22411

Audit	Re-audits
119	144
334	87
1160	144
1613	375
792557	191143

G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA	G	IN	NC	NA
3	6	3	0	6	5	12	1	104	16	155	0	19	25	15	0	28	30	42	0
2	9	1	0	6	11	6	1	81	133	61	0	17	40	2	0	13	61	25	1
7	2	3	0	6	6	11	1	91	56	128	0	9	30	20	0	46	18	35	1
10	1	1	0	9	5	9	1	122	42	111	0	19	21	18	1	55	12	32	1
12	0	0	0	19	4	0	1	191	63	21	0	46	10	0	3	85	5	8	2
9	1	2	0	22	0	1	1	256	2	17	0	42	8	8	1	86	0	13	1
6	6	0	0	20	1	2	1	219	46	10	0	48	11	0	0	72	18	9	1
12	0	0	0	21	1	1	1	272	0	3	0	49	8	2	0	90	0	9	1
9	2	1	0	17	6	0	1	236	34	5	0	44	14	1	0	81	15	3	1
1	11	0	0	7	10	6	1	142	114	18	1	35	24	0	0	41	51	7	1
1	10	1	0	2	12	9	1	76	128	71	0	11	36	12	0	16	51	31	2
0	1	0	11	5	4	1	14	2	1	1	271	15	1	0	43	12	8	2	78
12	0	0	0	18	3	1	2	262	8	3	2	37	18	4	0	78	12	8	2

G	IN	NC	NA	G	IN	NC	NA
577	365	669	7	282	40	48	10
319	1003	289	7	225	127	22	6
484	281	843	10	220	47	99	14
520	241	846	11	220	43	103	14
1184	335	84	15	312	35	6	27
1454	38	116	10	328	3	18	31
1173	360	68	17	325	20	6	29
1557	25	28	8	349	0	0	31
1400	172	39	7	347	16	0	17
700	802	105	11	278	81	6	15
346	866	392	14	196	149	28	7
349	213	29	1027	88	12	6	274
1253	270	75	20	314	36	3	27

G	IN	NA	G	IN	NA	G	IN	NA	G	IN	NA	G	IN	NA
0	12	0	1	22	1	20	222	33	11	37	11	4	95	1
0	12	0	1	22	1	2	240	33	7	40	12	4	95	1
0	12	0	2	21	1	5	234	36	11	37	11	4	95	1
0	11	1	3	20	1	8	233	34	10	37	12	5	92	3
0	0	12	0	8	16	2	16	257	3	4	52	2	5	93
2	10	0	5	18	1	23	219	33	15	33	11	39	59	2
10	2	0	5	18	1	120	116	39	18	28	13	39	58	3
10	0	2	20	3	1	135	11	129	41	6	12	92	4	4
0	11	1	4	19	1	5	237	33	8	39	12	9	87	4

G	IN	NA	G	IN	NA
94	1430	94	27	330	23
62	1459	97	17	337	26
68	1447	103	17	333	30
81	1428	109	25	328	27
21	72	1523	7	11	362
274	1244	99	60	281	39
419	1046	151	111	230	39
1231	145	242	251	30	99
88	1431	99	30	316	34

EXTENSION TO AGRICULTURE

AN IMPORTANT DEVELOPMENT OF THE BSCI SYSTEM IS THE CREATION OF A MODULE TO INVOLVE THE SUPPLIERS OF PRIMARY FOOD PRODUCTS.

BACKGROUND

In 2005, the BSCI established a Working Group to develop a module that would allow BSCI members to integrate their agricultural suppliers in the BSCI system. The aim was in particular to broaden the scope of the BSCI to include products such as fresh fruits, vegetables, farmed fish and sea food.

SCOPE

The suppliers of primary food products are usually those units that collect, pack and market the products that are produced on the farms. The basic principle behind this module is to require these processing or packaging units to take the responsibility for the working conditions in the unit, as well as the working conditions on the farms supplying them with products.

As a consequence, a BSCI audit in primary production is firstly an audit of the processing or packaging unit. But the audit also contains checks to verify how the code is being implemented on the farm level. This is done by auditing a sample of farms supplying the processing or packaging unit.

TOOLS

The working conditions in packaging or processing units are very similar to the working conditions in the non-food industry. However, the working conditions on the farms are considerably different, and so are the risks for the farm workers.

To ensure that these differences are sufficiently taken into consideration, the Working Group has adapted the existing BSCI Management Tools, creating two special tool sets.

- The set of tools for the processing and packaging units is very similar to the BSCI Management Tools used in the non-food, but specifically includes the requirement to integrate the supplying farms into a social management system.
- The set of tools for the farms takes into consideration the specific working conditions in agriculture.

ACTIVITIES IN 2006

In addition to adapting the system and tools, the Working Group started to consult with local stakeholders and suppliers. To achieve more synergies, BSCI is also in close dialogue with EurepGap.

The BSCI received positive reactions to the development approach and the engagement of stakeholders in the process. The main objective is now to keep engaging in active dialogue with local partners and stakeholders, and to develop the necessary background knowledge for the respective countries.



CASE STUDY

Morocco is an important market for fresh fruits and vegetables because of the close proximity to Europe, ideal climate and large production. For this reason, the BSCI and its members have organised stakeholder meetings and supplier workshops in Morocco to hold discussions with representatives of local stakeholders.

The Moroccan government has launched a comprehensive new Labour Code in 2004 which is expected to improve labour relations, flexibility and equality. However, the implementation of this Code has only just begun. Many of the workers in agriculture are migrant workers coming from other regions in Morocco. The seasonal character of the work and respect of working hours are the main concerns.

CONCLUSIONS

COMMON SOCIAL COMPLIANCE PROBLEMS IN MANY COUNTRIES

The diagram with the aggregate audit and re-audit results shows that throughout the various supplier countries, certain non-compliances are a general problem.

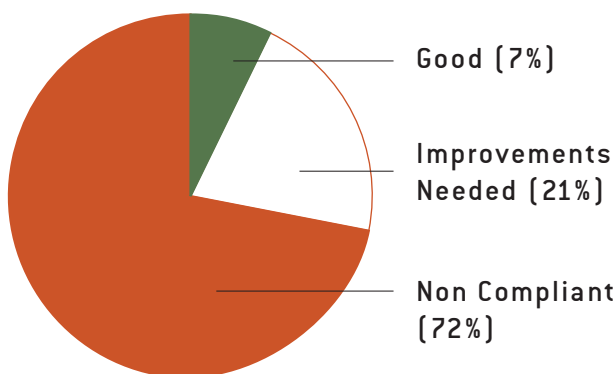
The rate of “good” and non-compliant assessments has hardly changed compared to 2005. The fact that more than one third of re-audited suppliers have been assessed “good” is an encouraging sign. The outcomes of audits, and more visibly of re-audits, shows that there is a measurable improvement after audits due to more awareness and corrective action being taken. However, the statistics also explain that after re-audits, 38 % of the factories are still not complying with the BSCI requirements. Non-compliances are found especially in management practices, working time and compensation whereas other issues such as health and safety, dormitories etc. have been improved to a larger extent.

AUDITS ARE A FIRST AND IMPORTANT STEP

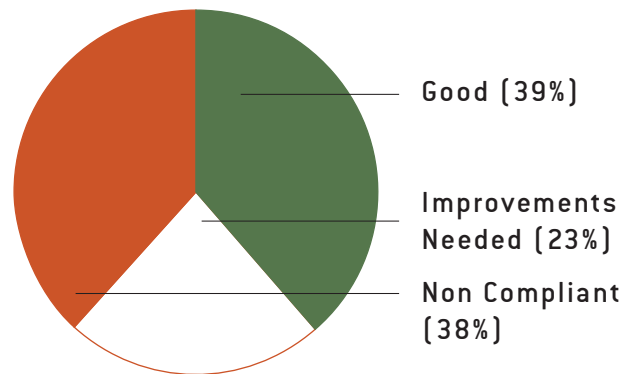
This shows that audits are not enough to improve labour conditions. They are important to raise awareness to create transparency about the situation in the supply chain. They are also useful to improve the performance with regard to things which can be fixed more easily, such as arrangements for fire safety measures, cleanliness, etc. However, the issues relating to the question is to how to professionally organise and run a factory and its workers and demands for specific management skills, need in-depth follow-up and training. Besides, audits are only a limited tool to trace non-compliances in the field of discrimination and freedom of association/collective bargaining.

“There is a measurable improvement after audits due to more awareness and corrective action being taken”

TOTAL RESULTS INITIAL AUDIT



TOTAL RESULTS RE-AUDITS



OUR PROGRESS

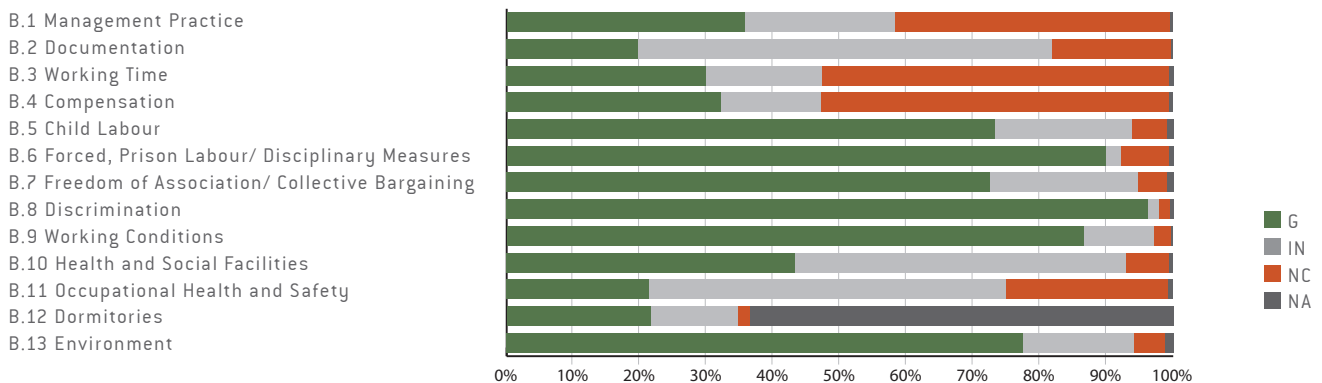
TRAINING AND QUALIFICATION - THE KEY FOR SUSTAINABILITY

Sustainability can be reached by specific training for factory managers and workers, based on audit findings. Managers often need a better understanding for which measures are necessary to organise a factory, work efficiently and respect the workers' rights. They need to see that this brings more motivation to their workers, thereby reducing staff turnover, and often raising the competitiveness of the factory. The trainers, experts in teaching these skills to the managers, and also in teaching workers about their rights, need to have local background

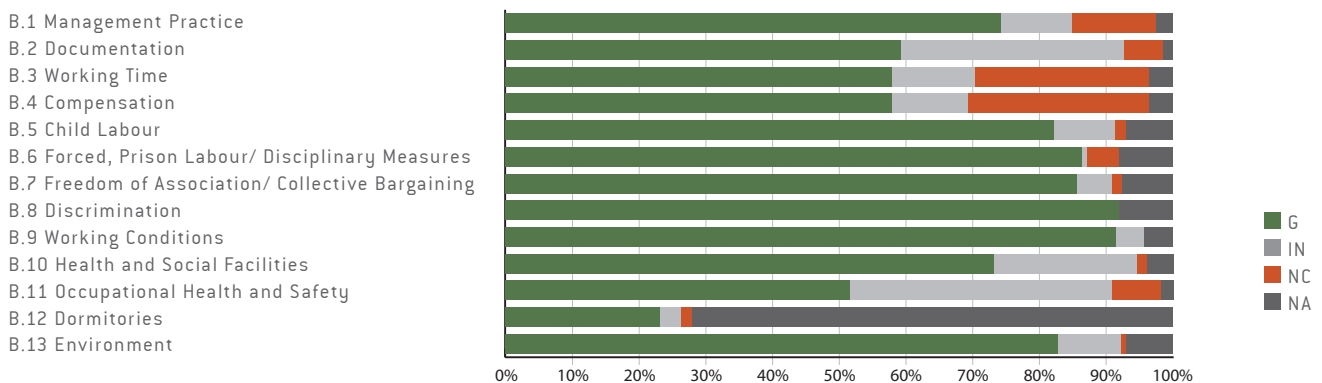
knowledge of the respective country or region. Non-compliances are sometimes based on a certain cultural understanding or are influenced by traditions, which make it essential that trainers are knowledgeable, credible and respected by all parties involved.

The BSCI has organised awareness raising workshops every year. Moreover, the BSCI has been heavily involved in numerous trainings in China organised by other organisations. The BSCI is currently planning more activities for 2007 and 2008, underlining the high importance of training and qualification as the key to more sustainability.

TOTAL INITIAL AUDIT RESULTS



TOTAL RE-AUDIT RESULTS



GOALS FOR 2007 AND 2008

1. MORE TRAINING AND QUALIFICATION MEASURES FOR SUPPLIERS

On the basis of the results of audits and re-audits, we will concentrate our focus on capability building. In cooperation with local stakeholders, more training measures will be put into practice. As this also depends on the relevant financial support, discussions with donors and governments will be intensified.

- Training project with ITKIB and SAI in Turkey.
- Training projects with CNTAC among others in China.
- Awareness raising workshops in China and Southern Africa.
- Endorse more individual training activities of single BSCI members.

2. STABLE STAKEHOLDER INVOLVEMENT

Sustainability can only be achieved with the support of stakeholders on the local level as they are deeply involved in the discussions and also bear responsibility.

- Stabilise Round Tables in supplier countries.
- Involve stakeholders in supplier countries in training projects.
- Continue dialogue with constructive stakeholders in Europe.

3. TACKLING SYSTEMIC CHALLENGES

After finalising the adaptation of management tools for BSCI's implementation in the food supply chain, this module needs to be put into practice in the supplier countries. Other systematic challenges include:

- Transparency and improvement of the external communication will remain as important items on the agenda.
- Continuous development of the Database will be an ongoing important issue (e.g self-assessment tool).
- Ongoing discussions with SAI will help to enhance quality and qualification issues.
- The continuous control of BSCI members' commitments underlines the credibility of the system.

4. CREATING MORE SYNERGIES

Broadening the membership, involving more suppliers in the system and creating more alliances with initiatives or organisations with the same objectives as the BSCI will bring more of the synergies for which we have been working since our beginning.

- Acquisition of new members, also in the food sector.
- More cooperation with other social compliance systems, especially our involvement in the supply chain laboratory and on-going dialogue with other companies and initiatives.
- Expand alliances with Round Tables in supplier countries.



G3 DISCLOSURE ITEMS

GRI APPLICATION LEVEL C

1: STRATEGY AND ANALYSIS

1.1	Statement from the most senior decision-maker of the organization	5
1.2	Description of key impacts, risks, and opportunities	3, 6, 8, 16-18, 20-28

2: ORGANIZATIONAL PROFILE

2.1	Name of the organization	CP1
2.2	Primary brands, products, and/or services	3, 8, 10
2.3	Operational structure of the organization and major divisions, operating companies, subsidiaries, and joint ventures	8, 12-13
2.4	Location of organization's headquarters	3, 31
2.5	Number of countries where the organization operates	3, 8, 21-23
2.6	Nature of ownership and legal form	3
2.7	Markets served	3, 8, 21-23
2.8	Scale of the reporting organization	Partly 3
2.9	Significant changes during the reporting period regarding size, structure and ownership	6
2.10	Awards received in the reporting period	6

3: REPORT PARAMETERS

Report Scope / Profile

3.1	Reporting period	31
3.2	Date of most recent previous report (if any)	5
3.3	Reporting cycle	3
3.4	Contact point for questions regarding the report or its contents	31

Report Scope and Boundary

3.5	Process for defining report content	3
3.6	Boundary of the report	3*
3.7	State any specific limitations on the scope or boundary of the report	3*
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities	Not applicable
3.9	Data measurement techniques and the bases of calculations	3*
3.10	Explanation of the effect of any re-statements of information provided in earlier reports	None
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	None

GRI Content Index

3.12	Table identifying the location of the Standard Disclosures in the report.	See above
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Assurance

3.13	Policy and current practice with regard to seeking external assurance for the report	Not applicable*
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4: GOVERNANCE, COMMITMENTS & ENGAGEMENT

Governance

4.1	Governance structure of the organization	8
4.2	Indicate if the Chair of the highest governance body is also an executive officer	Ferry den Hoed
4.3	Number of members of the highest governance body that are independent and/or non-executive members.	Not applicable
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	8, 16
4.5	Linkage between compensation and the organization's performance for members of the highest governance body, senior managers, and executives.	Not Applicable*
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	None
4.7	Process for determining the qualifications and expertise of the members of the highest governance body	4*
4.8	Internally developed mission and values statements, codes of conduct, and principles	8-9
4.9	Processes for overseeing the organization's identification and management of economic, environmental, and social performance	Not applicable
4.10	Processes for evaluating the performance of the highest governance body	Not available

Commitments to External Initiatives

4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	3
4.12	Externally developed sets of principles or initiatives to which the organization subscribes or which it endorses	4, 8-9
4.13	Memberships in associations	4

Stakeholder Engagement

4.14	List of stakeholder groups engaged by the organization	16-18
4.15	Basis for identification and selection of stakeholders	16-18
4.16	Approaches to stakeholder engagement, including frequency of engagement	16-18
4.17	Key issues and concerns raised through stakeholder engagement	16-18

Details

*3.6	Due to the BSCI's structure as a non-profit organisation the core indicators are not applied. They are too detailed in nature and tailored to a corporate setting.
*3.7	The Annual Report only applies to the activities performed by BSCI or related to its functions. It does not preclude sustainability reporting by its Members.
*3.9	The audit statistics included in the "Progress" chapter have been derived from the BSCI supplier database.
*3.13	BSCI regrets that it cannot allow external verification of its audit data in the database, as it contains highly sensitive business information of BSCI Members and their suppliers.
*4.5	FTA and BSCI are non-profit.
*4.7	The BSCI Members' representatives in the Members' Meeting usually hold responsible positions within the corporate social responsibility or social compliance departments of their respective companies.

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