

## **United Nations Global Compact Esquel Group's Communication on Progress – February 2010**

Esquel Group has been a member of the United Nations Global Compact since its founding. The Group is a strong supporter of the Compact's 10 Principles. In the past year, there were encouraging developments in various areas of our activities related to the 10 principles. This communication summarizes our policies and efforts in the past year and will also serve as a useful framework for future improvements.

### **Principle 1: Business should support and respect the protection of internationally proclaimed human rights**

### **Principle 4: Business should uphold the elimination of all forms of forced and compulsory labour**

### **Principle 5: Business should uphold the effective abolition of child labour**

## **Esquel Philosophy**

The Esquel philosophy stems from the belief that every single employee has the potential to be an agent of positive change. We practice what we believe to be responsible and sustainable activities, and also are a catalyst for change in our industry and the communities in which we operate.

Esquel believes that outstanding business performance must be achieved through practices that are ecologically sustainable and based on the well being for and integrity of its employees and communities. We also believe that it is possible to generate prosperity and growth, deliver outstanding quality, and improve the livelihood of people while preserving and even enhancing opportunities for future generations.

## **Esquel Code of Conduct**

### **Forced Labor**

Esquel factories shall not use any forced labor, whether in the form of prison labor, indentured labor, bonded labor or otherwise.

### **Child Labor**

No worker shall be employed under the age of 15, or under the age of completion of compulsory education, or under the legal minimum age for employment in the country of manufacture\*, whichever is greater.

### **Harassment or Abuse**

Every employee shall be treated with respect and dignity. No employee shall be subject to any physical, sexual, psychological or verbal harassment or abuse.

**Nondiscrimination**

No person shall be subject to any discrimination in employment, including hiring, salary, benefits, advancement, discipline, termination or retirement, on the basis of gender, race, religion, age, disability, sexual orientation, nationality, political opinion, or social or ethnic origin.

**Environment, Health and Safety**

All factories shall comply with local environmental, health & safety regulations. Management shall provide a safe and healthy working environment to prevent accidents and injury to health arising out of, linked with, or occurring in the course of work or as a result of the operation of Esquel factories.

**Freedom of Association and Collective Bargaining**

Esquel factories shall recognize and respect the right of employees to associate, organize and bargain collectively in a lawful and peaceful manner without penalty or interference.

**Wages and Benefits**

Esquel factories shall pay each employee at least the legal minimum wage and applicable premium rate for overtime, and shall provide all legally mandated benefits.

**Hours of Work**

Except in extraordinary business circumstances, employees shall (i) not be required to work more than the lesser of (a) a 60-hour work week, or (b) the limits on regular and overtime hours allowed by the law of the country of manufacture; and (ii) be entitled to at least one day off in every seven day period.

**Principle 2: Business should make that they are not complicit in human rights abuses****Collaboration with the UN SRSG**

In his 2008 report to the UN Human Rights Council, the Special Representative of the UN Secretary-General (SRSG) for Business and Human Rights, John Ruggie, proposed a policy framework setting out six principles that should underpin grievance mechanisms: legitimacy, accessibility, predictability, equitability, rights-compatibility and transparency. At the company level, such mechanisms should operate through direct or mediated dialogue rather than through adjudication on the part of the company.

Esquel is pleased to be one of the four companies participating in a project initiated by the UN SRSG to pilot the Grievance Mechanism Principles. Other collaborators of this project include the International Organisation of Employers (IOE), International Chamber of Commerce (ICC) & the Business & Industry Advisory Committee (BIAC) and the OECD. The objective of the project is to pilot these Principles at the enterprise level and disseminate the results as part of the learning experience.

**Participating Supplier Affiliation with the Fair Labor Association**

Esquel has entered its second year of becoming a Participating Supplier affiliate of the Fair Labor Association (FLA). FLA seeks to combine the efforts of industry, civil society organizations, colleges and universities to protect workers' rights and improve working conditions worldwide by promoting adherence to international labor standards. Since becoming a Participating Supplier, Esquel has developed with the FLA a system to monitor and improve

labor standards in its factories. As part of FLA's accreditation process we have set up Esquel's Workplace Code of Conduct, (noted above), strengthened our internal monitoring system, and focused on efforts to continually improve working conditions and to become an employer of choice.

### **Internal Oversight System**

Factory workers are our most important asset. In order to continuously improve the workplace environment, it is necessary to have good monitoring, training and communication programmes in place at the factories. Above all, it is important to maintain a high level of transparency and develop a relationship of trust and partnership with our employees and all stakeholders, so that they are aware of our initiatives and efforts.

Our Corporate Social Responsibility team conducts internal reviews of the group's manufacturing operations. Our audits are performed with established audit tools which cover a comprehensive range of issues. The audit tools are designed to identify our strengths, weaknesses and a practical framework for improvement.

### **Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining**

### **Principle 6: Business should uphold the elimination of discrimination in respect of employment and occupation**

### **Our People**

We understand that a motivated workforce will significantly contribute to our competitiveness and profitability. To achieve that, we constantly strive to improve our management systems through better planning, training and providing a safe and healthy work environment for everyone in the Esquel community.

### **Our Policies**

**Recruitment and remuneration** - The Company's remuneration programs are designed to support our efforts to recruit, retain and motivate our employees in the most professional way possible.

**Compensation and benefits** - Our compensation remuneration and benefits systems reflect our competitiveness in the market and comply with legal wage requirements in the countries where we operate. All information is properly recorded and can be retrieved for reference by employees or auditors when necessary.

**Freedom of Association and Collective Bargaining** - Esquel management engages in trade union discussions and negotiations through the formal independent trade unions existing in its Sri Lanka factories, the in-house union at its Malaysia factory, the VCGL in Vietnam, and the ACFTU in China.

**Performance Management** – Our Performance Management system aims to assist each employee in achieving his/her full potential and to align individual performance goals with those of the organization as a whole

**Training and development** - Factory employees undergo training in factory operations and processes, specific skill development, and environment, health and safety practices. For more senior staff, the company provides more advanced training in technical process and products, management development, EHS, language and soft skills. We organize cross-departmental training and seminars to give employees the chance to expand their horizons and motivate them to keep striving for excellence, to groom them to grow with the group.

**Communication** – At Esquel, we provide communication channels for members of staff and workers to raise their concerns and provide for procedures for investigation of grievances. Results of investigations are also made available to staff and workers. No employee will be retaliated against in any way for using the grievance procedures.

**Principle 7: Business should support a precautionary approach to environmental challenges**

**Principle 8: Business should undertake initiatives to promote greater environmental responsibility**

**Principle 9: Business should encourage the development and diffusion of environmentally friendly technologies**

**United Nations Climate Change Conference**

Esquel collaborated with Novozymes on a sustainable t-shirt which was showcased at the Fashion Summit, parallel to the United Nations Climate Change Conference (COP 15) in Copenhagen in December 2009. This new process technology is aimed at reducing water and carbon footprint, in addition to shortening the processing time. Esquel provided support on the production trials and commercialization of the technology.

**Monitoring our Carbon Footprints**

We believe that the key to sustainability is to improve our management, and to invest in research and technology. We aim not only at producing the best quality products, but also to adopt more resource-efficient manufacturing processes, enabling us to minimize our impact on the environment. We work hard to improve our processes, resource-efficiency and reduce waste. Through better management, we constantly work on improving planning, training and providing a safer and healthier work environment.

In 2005, we set our target of reducing 30% water and energy consumption on a per garment basis, within 3 years, by the end of 2008. Finally, we managed to achieve 29% reduction in energy and 40% reduction in water consumption by end of 2008. On recycling, we set a target of recycling 50% of the water the company uses in the next 5 years in 2008.

In 2008, Esquel reviewed the sustainability of its practices. The first step of the project involved an evaluation of the group's manufacturing facilities in Gaoming along several dimensions. This

is also Esquel's first attempt of setting up an inventory of its greenhouse gas emissions. We plan to broaden the scope of this initiative in the future.

## **Reducing our Carbon Footprints**

Our efforts at reducing our carbon footprints can be best explained by reviewing our vertical integration set up.

### Cotton Farming

1. Drip irrigation
2. Organic Cotton
3. Recycled Yarn
4. Patented Pulse Dyeing Technology
5. Using Natural Plants Extract as Dyestuff

### Weaving / Knitting

6. Reform of Boiler Burning System
7. Green Fans Application
8. Green Light
9. Adjustment of Frequency Conversion
10. Chiller Disposal

### Garment

11. Good Management
12. Lighting modification
13. Temperature control policy
14. Steam saving dryer (co-develop with machine supplier)

### Packaging and Transport

15. Polybags
16. Direct winding
17. Eco-friendly trims and packaging materials

### Recycling and improvement of efficiency

18. Recycled Waste Heat for Air Compressor
19. Heat Recovery System
20. Heat & water self-recovering
21. Bath re-use and green washing
22. Lye recycling
23. Hot water sharing
24. Material input & output control

## **Principle 10: Businesses should work against corruption in all its forms including extortion and bribery**

Esquel believes that honesty, integrity and fair play are important assets in our business. All staff of the Company must ensure that the Company's reputation is not tarnished by dishonesty, disloyalty or corruption. Esquel has strict guidelines prohibiting corruption and all staff of Esquel are well-informed about such guidelines.