

FTSE4Good Index Criteria

Supply Chain Labour Standards

1. Introduction

Good practice in corporate responsibility generally requires companies to address both their direct and indirect, social, environmental and ethical impacts. A key indirect impact for companies with operations that have complex supply chains is the welfare and working conditions experienced by the suppliers' workers. Global investors and other stakeholders are also increasingly concerned about the potential risks posed to a company by the activities within its supply chain.

The FTSE4Good Policy Committee has recognised that supply chain labour standards are of increasing concern and has therefore overseen the development, by FTSE Group, of a new set of FTSE4Good criteria covering this issue. These criteria have been developed on the basis of broad consultation over an 18 month period involving input from many stakeholders, including corporations, fund managers, non-government organisations and private investors.

1.1 Principles and Initiatives in Supply Chain Management

There is general consensus that workers' rights are universal. This is demonstrated by internationally agreed core labour rights that have been established through the International Labour Organisation (ILO) as summarised in its Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy¹. The FTSE4Good criteria uses the ILO standards as a starting point.

In addition there are many groups currently working on Supply Chain Labour Standards. The following multistakeholder initiatives² support businesses in engaging with these issues and which explicitly draw from the ILO Core Conventions. The approaches of these groups have been used to further develop the proposed criteria in this document:

- The Ethical Trading Initiative (based in the UK)
- The Fair Labour Association (based in the US)
- Social Accountability International (based in the US)

1.2 Definition of the Supply Chain

For the purposes of the FTSE4Good Index Criteria, Supply Chain is defined as: The distribution channel of a product, from its sourcing, to its delivery to the end consumer (also known as the value chain). It includes the growing of crops and acquisition of raw materials, manufacturing products, distributing finished goods to retailers and sale to the final consumer. The supply chain is typically comprised of a chain of companies, each contributing to the final product such as supplying component parts, or doing something further to the product (adding value).³

¹ <http://www.ilo.org/public/english/standards/norm/whatare/fundam/index.htm> ; and ILO 1988, ILO Declaration on Fundamental Principles and Rights at Work and its Follow-Up, ISBN 92-2-110829-5

² www.ethicaltrade.org; www.fairlabor.org; www.cepaa.org

³ As developed in the Market Consultation on the Supply Chain Criteria

2. The Criteria

All companies have suppliers with whom they have a direct commercial relationship (“first-tier suppliers”), this is where they have the most influence. Although research shows that labour standards are of greatest concern beyond the first-tier suppliers, engaging with these first tier suppliers remains a key challenge for many companies. Therefore the FTSE4Good Supply Chain Labour Standards Criteria are currently only applicable to the management of first-tier suppliers⁴.

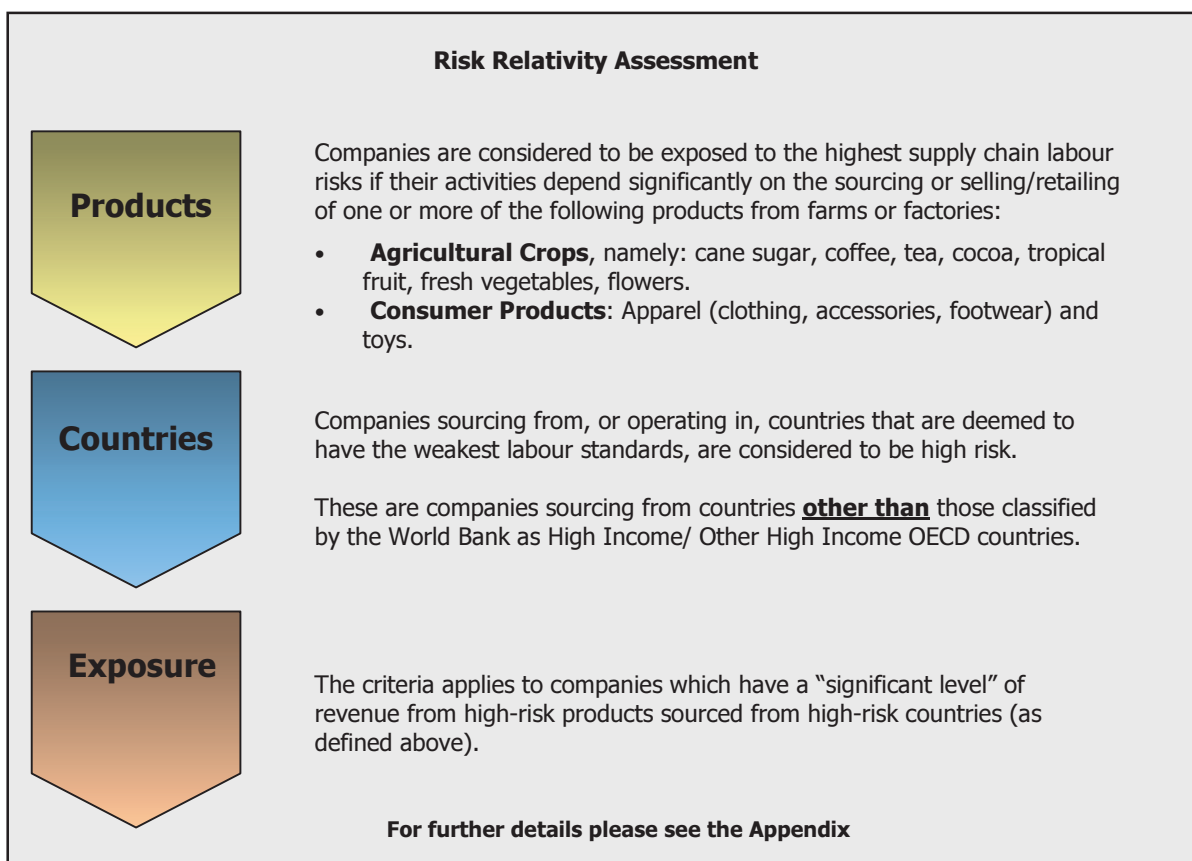
2.1 Companies affected by the new criteria

Some industry sectors are exposed to higher levels of supply chain risk owing to the nature of their business. To reflect this, the FTSE4Good criteria for Supply Chain Labour Standards are applicable initially only to companies identified as exposed to these highest risks.

The process below sets out to identify high risk companies by applying a three stage screening system. These screens cover three areas based on an evaluation of:

- the products the company sells,
- the countries that it sources from, and
- the exposure in these markets in terms of revenue.

Companies identified will be required to meet the criteria to maintain their position in or enter the index.



⁴ FTSE recognises that for some industries first tier suppliers (commonly importers, agents and wholesalers) may be removed from potential problems at source. Therefore in the future, FTSE will consider criteria that will require companies to work with first tier suppliers to communicate and promote the requirements back down their supply chain (see Appendix). Companies have greater influence over own brand suppliers than those of proprietary branded products. Therefore the criteria are currently only applicable to own brand suppliers. FTSE also recognises that while best practice may mean that companies also apply supply chain labour standards to proprietary brands, focus on own brand is acceptable for the current FTSE4Good criteria.



3. Criteria and Implementation Timetable

High risk companies (as defined by the Risk Relativity Assessment) which are already constituents of the FTSE4Good Series must meet the Policy and Systems Minimum Criteria by 1st July 2005. They must meet the Policy and Systems Final Criteria by 1st July 2006. The Reporting Criteria will then be implemented in 1st January 2007.

All high risk companies now wishing to join the index for the first time, will be required to meet the Policy, Systems and Reporting criteria in full.

	POLICY		SYSTEMS	REPORTING
Minimum Criteria 1 st July 2005 (Policy or Systems)	<ul style="list-style-type: none"> Policy/code (or other relevant documentation) to commit to, or clearly be based on (and contain the principles of), the four ILO Core Convention areas: <ul style="list-style-type: none"> - Equality/Discrimination - Forced Labour - Child Labour - Worker Representation* Policy/code must be available on request. <p><i>Please note that companies that are members of The Ethical Trading Initiative, The Fair Labour Association, or audited to Social Accountability International's SA8000 will be considered to be demonstrating commitment to the four ILO Core Convention areas.</i></p>	OR	<ul style="list-style-type: none"> Communication of a relevant policy /code, position or concern to suppliers (at least in some regions) Some monitoring of supply chain (for example identification of supply chain, supplier numbers, assessment of where the issues are by country or product) 	No requirement
Final Criteria 1 st July 2006 (Policy and Systems)	<p>In addition to meeting the minimum criteria the policy/code (or other relevant documentation) should also be extended to address:</p> <ul style="list-style-type: none"> Health & Safety In addition <u>one</u> of the following areas, as appropriate to the supply chain, and subject to ILO conventions: <ul style="list-style-type: none"> - Working hours - Wages - Disciplinary procedures The policy/code must be publicly available. 	AND	<ul style="list-style-type: none"> Some visiting/auditing of suppliers (e.g. some risk assessment to identify the highest priority suppliers/products/ countries and some substantial supplier visits or audits) Policy/code should be communicated to suppliers globally (e.g. first tier – those with whom the company has a direct trading relationship) Strategic responsibility for the policy/code implementation shall rest with one or more board members or senior executives/managers Training of relevant employees (e.g. compliance/audit teams or equivalent, buying teams, managers and workers in suppliers) on the policy/code Policy/code has procedures to remedy any non-compliance** 	No requirement
1 st January 2007 (Reporting)	As above		As above	Report (or other form of communication) is publicly available and covers both policy and management systems.

* Worker Representation: Companies must address Freedom of Association and/or Collective Bargaining/Representation to meet "Minimum Criteria". Companies must meet Freedom of Association and Collective Bargaining/Representation to meet "Final Criteria".

** Where a company's suppliers in its supply chain have been alleged to be in breach of the ILO Core Convention areas, it must have taken visible, demonstrable or quantifiable measures or steps to prove it has addressed these allegations effectively.



4. Appendix

Further details on the Risk Relativity Assessment

Products - Companies in the following sectors will automatically be subject to the Products Screen: Clothing & Footwear, Leisure Equipment, Other Textiles & Leather, Food Processors, Discount & Superstores & Warehouses, Retailers-Hardlines, Retailers-Multi Department, Retailers-Soft Goods, Food & Drug Retailers.

Countries - As defined by the World Bank Country Classification as High Income and Other High Income / Middle Income Countries as at 1st September 2004 (<http://www.worldbank.org/data/countryclass/classgroups.htm>). The countries listed below are those considered **not** to be at risk.

High Income OECD: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korean Rep, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK, US.

Other High Income: Andorra, Aruba, Bahamas, Bahrain, Barbados, Bermuda, Brunei, Cayman Islands, Channel Islands, Cyprus, Faeroe Islands, French Polynesia, Greenland, Guam, Hong Kong, Isle of Man, Israel, Kuwait, Liechtenstein, Macao, Malta, Monaco, Netherlands Antilles, New Caledonia, Puerto Rico, Qatar, San Marino, Singapore, Slovenia, Taiwan, United Arab Emirates, Virgin Islands

Significant Exposure is defined as: More than one-third of total company revenue from high risk products sourced from high risk countries; or more than £100m revenue from sale of the high risk products sourced from high risk countries.

Potential Future Criteria (to be confirmed by FTSE4Good Committee)

The FTSE4Good Committee will review the criteria after implementation, with the view to introducing criteria for:

- **Auditing** Following market consultation in 2004, key performance indicators for auditing could be along the following lines (these may change as best practice evolves, but are included to provide a guide to companies):
 - Risk assessment of all suppliers;
 - Prioritise highest risk and audit high risk as a minimum;
 - Follow-up reviews of progress to address non-compliances;
 - Protection for whistleblowers to ensure effectiveness of audit.
- **Inclusion in buying approaches** (e.g. objectives, targets, incentives, goals etc.)
- **Policy or systems to expect suppliers to communicate** and promote the policy requirements back down their supply chain to source
- **Public reporting of performance:** non-compliance, remedial action, procedures, and outcome

Other product sectors will be revised by the FTSE4Good Committee following implementation. However, it is likely that the next companies required to meet the criteria will be those sourcing or selling/retailing the following products: Electronics, Telecommunications, and Information Technology.

Further company guidance on these criteria will be made available from FTSE Group upon request.