



# POSITION PAPER ON TRANSPARENCY

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**FASHION  
CHECKER** 

**Clean  
Clothes  
Campaign** 

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**Clean  
Clothes  
Campaign**



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# Introduction

The textile, garment, leather and footwear industry is characterised by a lack of transparency, facilitated by **complex global value chains**, where goods sold worldwide are predominantly produced in factories across Asia, Southern and Eastern Europe, Africa and Latin America. In general, these factories work under extreme time pressures to deliver orders, and multilayered supply chains mean that the manufacturing market is opaque. The **confidentiality** of contractual obligations makes it challenging to identify which factories produce for which brands, and whether a specific supplier is respecting workers' rights and providing safe working conditions: the only way to know this information is to rely on what brands say. Effectively, **what happens in the factory, stays in the factory**.

Over the past few years **transparency has become a trendy word**, however many companies continue to keep large parts of their business practices in the dark. **The lack of clear information creates the following negative consequences:**

- It prevents public scrutiny of companies' behaviour as well as an understanding among a broader public of the real impact of that specific company's chain of operations and, therefore, the consequences of their purchases;
- It does not allow the company concerned to effectively understand the impact of its business operations and to reassess its practices after a proper risk evaluation;
- It prevents workers from identifying the buyers of the products they make, thus weakening their possibility for complaints and remedies as they often do not know the company they are producing for.

Transparency enables workers, labour organisations, human rights groups, and others to swiftly alert apparel companies to labour abuses in the factories producing for them, giving companies an opportunity to intervene, stop and rectify rights violations at an early stage. It allows workers to further their fight for justice by providing access to information on which brands and retailers, multi-stakeholder initiatives or judicial courts they can approach for remedy. Transparency facilitates brand collaboration and collective action in order to stop, prevent, mitigate, and provide remedy for labour abuses in supply chains.

**Transparency should not be seen as a burden, but rather as a requirement which brings positive effects for the business itself**, such as improving the efficacy of due diligence processes, increasing operational efficiency, and enhancing the business' reputation by showing its commitment to monitoring workers' rights and demonstrating accountability.<sup>1</sup> **This does not mean that operating transparently is all it takes to become a sustainable business:** transparency is always a tool and not the

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<sup>1</sup> For further analysis of the benefits of transparency for businesses with specific reference to the Transparency Pledge, see <https://www.icar.ngo/wp-content/uploads/2020/01/ICAR-BusinessCaseforTransparency-single-pages.pdf>

solution. Efforts to equate transparency with sustainability without any further work on supply chain violations are nothing more than spin. Many companies that are fully compliant with transparency requirements still engage with suppliers who don't pay living wages or refuse to allow workers to unionise. Transparency on social information along the supply chain is needed to reveal the concrete conditions in garment factories, thereby revealing the problems and obtaining data to help find the solutions.

The Clean Clothes Campaign publishes corporate transparency information in its online **Fashion Checker**, active since June 2020 ([www.fashionchecker.org](http://www.fashionchecker.org)). This portal collects information from a variety of sources on the degree of transparency and the payment of living wages along the supply chain of more than 100 global brands, shining a spotlight on their individual commitment to effective transparency.

**This paper addresses the latest trends and proposes solutions for implementing transparency in the garment, textile and footwear industry**, where complex supply chains and fast business models have created an immensely opaque area and purportedly diluted the chain of controls, to the detriment of garment workers' rights and working conditions.

It follows on from the **Clean Clothes Campaign 2016 transparency position paper**, which contained a **set of demands** for stakeholders. In that paper we asked:

- 1. The European Union and the governments of garment brand HQ countries:** (i) to introduce legislation on non-financial impact reporting; (ii) to introduce compulsory annual corporate disclosures for up to tier 3 subcontractors and agents; (iii) to impose the adoption of a product label code linked to a website where traceability information should be contained;<sup>2</sup> (iv) to operate a standardised shipping database where cargo trading companies and Free On Board (FOB) prices are recorded and made available to other stakeholders upon request.
- 2. The governments of producing countries:** (i) to introduce legislation on non-financial impact reporting; (ii) to publish a database of findings of labour inspectorates showing compliance with labour rights as per local law, naming those enterprises which have repeatedly failed to meet standards over periods of 6 months or more;
- 3. The garment brands and retailers:** (i) to publish annual reports on their impact on supply chains, mitigation measures and Key Performance Indicators (KPIs);

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<sup>2</sup> Information should include: Supply chain traceability (production place / facilities addresses, intermediaries, importer, brand); Employment statistics at the facility (number of workers at the facility and percentage men/women; average wage of each grade, average monthly overtime, benefits given, registered union and/or CBA presence, employment relationship information by percentage); economic information of the facility (turnover, number of pieces sold, % of factory product sourced per brand, price breakdown structure); and product information (chemical products used, certifications obtained and certification bodies).

(ii) to publish information on suppliers and subcontractors (name, address and contact details); (iii) to publish annual social audits reports; (iv) to work with key stakeholders to carry out regular human rights reports.

4. **The suppliers and manufacturers:** (i) to annually disclose their buyers' list; (ii) to annually disclose their subcontractors' list; (iii) to publish annual social audits reports; (iv) to appoint a top-level manager responsible for social performance and to make their contact details available

In the past 4 years, many developments have occurred which have impacted both on the legislative framework and on companies' voluntary practices. Some of our demands have been partially accomplished, while other initiatives are still falling short of implementing genuine and effective corporate transparency. An overview is offered below.

## Legislative framework

International standards must be the starting point for all corporate transparency requests. The **UN Guiding Principles on Business and Human Rights** state that companies should account for how they address human rights (**Principle 21**) providing adequate and transparent information. It explains that "formal reporting is expected by enterprises where risks of severe human rights impacts exist, whether this is due to the nature of the business operations or operating contexts", such as the garment industry model. The **IV Chapter of the OECD Guidelines for Multinational Enterprises** mandates companies to "*carry out human rights due diligence as appropriate to their size, the nature and context of operations and the severity of the risks of adverse human rights impacts.*"

These precepts are now supported by the entry into force of the **European Directive 2014/95/UE on the disclosure of non-financial and diversity information by certain large undertakings and groups**<sup>3</sup>, which requires these companies to disclose their policies and risk assessments, report on their impacts on human rights and provide KPIs and evidence. Transparency practices along the supply chain are crucial to achieving this. The legislation itself applies only to large undertakings, but it promotes a general approach to corporate social responsibility which can be taken up by any actor in the supply chain. However, as this Directive focuses on an obligation to report on human rights due diligence and not on an obligation to do human rights due diligence, information on due diligence processes, in particular when it comes to the supply and subcontracting chains of the company, is still lacking.

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<sup>3</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014L0095>

At the time of writing, the European Commission has announced the launch of a policymaking process to advance mandatory human rights due diligence legislation for all companies, which the Clean Clothes Campaign strongly supports. By requiring transparency on the due diligence process, on the supply-chain structure and on wages paid, such legislation has the potential to bring about important changes for supply-chain transparency.



## Voluntary actions

### *The Transparency Pledge*

Lacking an industry-wide standard for transparency means that companies adopt differing approaches, creating a lack of consistency and confusion for consumers. To tackle this, in 2016, the Clean Clothes Campaign, together with eight other labour and human rights organisations,<sup>4</sup> formed a coalition to advocate for transparency in the apparel supply chains. This coalition endorsed a Transparency Pledge<sup>5</sup> as a minimum standard for supply chain disclosure, demanding all apparel companies sign up to this Pledge, which aims at consistency in disclosure practices.

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<sup>4</sup> These are: IndustriALL Global Union, International Trade Union Confederation, UNI Global Union, Human Rights Watch, Maquila Solidarity Network, Workers Rights Consortium, International Corporate Accountability Roundtable, International Labour Rights Forum.

<sup>5</sup> <https://transparencypledge.org/>

By signing the Transparency Pledge, companies commit to bi-annually publish on their website: (i) the full name of all authorised production units and processing facilities; (ii) the production site addresses; (iii) the parent company of the business at the site; (iv) the type of products made (apparel, footwear, home textile, accessories); (v) the number of workers at each site by category: less than 1000, 1001 to 5000, 5001 to 10000, more than 10000. Companies shall publish the above information in a spreadsheet or other searchable format, to allow stakeholders to effectively make use of the data.

The coalition maintains that the information required by the Pledge is the very minimum. It was strategic to make the standard a floor rather than a ceiling in order to reach a critical mass of brands signing up to the Pledge and scale up industry good practices. However, the Clean Clothes Campaign calls on brands to move beyond this minimum standard, especially as corporate transparency practices have continued to develop over the last four years, thus raising the bar.

In order to add onto the initial data points and address today's limits of the Transparency Pledge such as its focus on tier 1 suppliers (while, in practice, there are typically many layers to the supply chain), and on providing quantitative rather than qualitative data, we believe information should be available on other aspects such as female workers and gender pay gaps; salary practices along the supply chain; migrant workers; grievance mechanisms; or the presence of unions.

## *Multi-Stakeholder Initiatives*

Alongside this bottom-up initiative, apparel companies have also teamed up in order to promote stronger ethical behaviours and foster transparency practices, building multi-stakeholder platforms (MSIs). In the apparel industry, there are at least seven widely known MSIs claiming to improve business practices in the supply chain, mainly composed of corporate members and trade unions and sometimes of government representatives. These are: amfori (formerly Business Social Compliance Initiative or BSCI); the Dutch Agreement on Sustainable Garments and Textiles (AGT); the Fair Labor Association (FLA); the Fair Wear Foundation (FWF); the German Partnership for Sustainable Textiles (PST); the Sustainable Apparel Coalition (SAC); and the UK Ethical Trading Initiative (ETI).

These MSIs require different levels of transparency. For example, after outreach by the Transparency Pledge coalition, the FLA has altered its membership requirements to include full disclosure in machine readable format by 2022,<sup>6</sup> whereas amfori and SAC continue to demand, in practice, zero transparency<sup>7</sup> from their members.

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<sup>6</sup> <https://cleanclothes.org/news/2019/labour-and-human-rights-groups-urge-multi-stakeholder-initiatives-and-business-associations-in-the-apparel-sector-to-adopt-transparency-requirements>

<sup>7</sup> A full analysis of MSIs effectiveness and progresses is contained in the latest Transparency Pledge coalition report of December 2019, See CCC's report on social audits Fig leaf for fashion, published in September 2019, [here](#).

If, on the one hand, these MSIs have the capacity to lead change due to their large outreach, on the other hand some common problems make them inherently weak in driving this change, namely: the voluntary nature of the entire process; the lack of enforcement on committed pledges; and the low level of transparency required. Ultimately, the Clean Clothes Campaign maintains that these voluntary initiatives of social audits and compliance defend the interests of their corporate members at the cost of achieving real progress and lasting change in practice. By not pursuing mandatory transparency requirements or binding commitments to remediation, these MSIs protect brand reputation without changing actual business models,<sup>8</sup> thereby doing little to effectively improve working conditions or combat violations.

## *The Open Apparel Registry*

The Open Apparel Registry (OAR) is an open source tool which maps garment facilities worldwide and assigns a unique ID number to each. It assists in identifying apparel facilities and their affiliations by collating disparate supplier lists from industry stakeholders into one central, open source map and database. The OAR was launched in March 2019 and is a non-profit organisation with a multi-stakeholder Board of Directors representing civil society,<sup>9</sup> the open data sector, factory groups, industry MSIs and brands. The OAR compiles data from multiple sources including large datasets from MSIs, brand and retailer supplier lists, facilities and factory groups, service providers, government databases and more. The data is published under an open data license, Creative Commons CC-BY-SA 4.0. The OAR is supported by an algorithm which recognises similar entries, carries out checks, and eventually assigns the unique ID number.

Thanks to the OAR ID, a unique 15-character identifier, OAR allows for the identification of individual garment facilities, thereby contributing to solve the confusion generated by the common issue of brands misspelling suppliers' names and factories, and giving more information on how different brands' value chains are configured. However, it does not (yet) provide any quantitative or qualitative information on social and environmental standards underneath that value chain.<sup>10</sup>

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<sup>8</sup> See CCC's report on social audits Fig leaf for fashion, published in September 2019, [here](#).

<sup>9</sup> <https://openapparel.org/> It is worth mentioning that Open Apparel Registry board member Paul Roeland is also an activist and tech and outreach coordinator from the Clean Clothes Campaign International Office, and board member Rola Abimourched is a Senior Program Director at the Worker Rights Consortium which works with the Clean Clothes Campaign.

<sup>10</sup> An NGO and University work-in-progress project is worth mentioning: [Mapped in Bangladesh](#) (at the time of writing, in beta version and complete for the Dhaka region), which provides a full repository of all Ready-Made-Garment (RMG) factories in Bangladesh. Each factory has a detailed sheet providing information on factory type, number of workers and gender composition, clients and export countries, memberships, inspection listings, presence of workers participation committees, addresses and contacts, and other useful information for the workers including the nearest medical center and fire station.



Bangladesh - Musamir Azad

In December 2018 and January 2019 thousands of workers in Bangladesh took to the streets to protest their low wages and the unequal distribution of the new minimum wage rise. Factory owners and the government responded immediately by firing workers, blacklisting activists, filing trumped-up criminal cases against workers and cracking down on demonstrations with violence. Thousands of workers were dismissed and/or charged. A list of factories where workers had been affected by retaliatory matters was made by labour rights groups on the ground, but factory owners in Bangladesh have power and activists within Bangladesh could not convince them to drop the charges and reinstate workers, although some arrangements were made. Over 30 factories had filed criminal cases against workers. Supply chain action was needed and activists turned to brands and retailers sourcing from these factories to pressure their suppliers to provide justice to the wronged workers. Using OAR and, in cases where brands had not uploaded their lists yet, supplier lists on brand websites, activists in the CCC network contacted 20 brands sourcing from these factories, pressing the brands to address the repression in their supply chains. By early 2020, 14 cases had been dismissed by the court, the vast majority of which had major brands among their buyers who engaged with factory management. In contrast, the majority of cases that are still pending were filed by factories where no major buyers could be identified. Transparent supply chains give workers an important weapon to by-pass existing oppressive power structures in their own countries and allows brands to right the wrongs in their supply chains. Recently, through other means, one of the factories that still has charges pending against workers was identified as supplying to Walmart - who knows how many of the other factories that are threatening workers with jail time could be pressured through international supply chains, if only workers and activists knew who to turn to?

In light of the above, voluntary actions alone will never achieve the substantial system change necessary. The introduction of binding legal requirements is the only way to accomplish lasting and industry-wide change.

### A case study - The Bangladesh Accord

The Accord on Fire and Building Safety in Bangladesh (the “Accord”) was established after the Rana Plaza building collapse. The Accord is an independent, legally binding agreement between brands and trade unions to work towards a safe and healthy garment and textile industry in Bangladesh. It was renewed in 2018 in the form of a Transition Accord,<sup>11</sup> which is binding until June 2021 under the Accord Foundation, which is still active from the Netherlands. The Accord has 209 signatories<sup>12</sup> made up of trade unions, garment companies and witnesses. The new Accord adds manufacturer representation to the existent governance of brands and unions. In a Memorandum of Understanding, the organisations forming the RSC committed themselves to maintaining the same levels of transparency. Although concerns have been raised by the witness signatories to the Accord, their hope is that the Accord’s exemplary levels of transparency will be maintained.<sup>13</sup>

The Accord covers factories producing Ready-Made Garments (RMG) and the renewed Accord in 2018 extended to include home textiles and fabric & knit accessories. It is governed by a Steering Committee entrusted with the overall management of the agreement, made up of equal representation chosen by the trade union and company signatories (maximum 3 seats each) and a representative chosen by the International Labor Organization (ILO) acting as a neutral chair and independent advisory member. The Accord aims to ensure the safety of Bangladeshi garment workers and of the factories they work in by: (i) independently and transparently carrying out regular health & safety inspections of factories, and publishing the reports; (ii) monitoring remediation and corrective actions implementations; (iii) providing safety trainings to factory owners and workers; (iv) resolving safety complaints.

Thanks to the Accord: (i) 37367 Inspections have been carried out; (ii) 273 completed their remediation plan while over 1,000 are under implementations; (iii) more than 1.8 million workers and more than 1,270 factories have received safety trainings; (iv) 552 workers’ safety complaints have been addressed.

The Accord allowed Bangladesh garment factory owners to effectively commit to, implement and provide workers’ safety, therefore being included in a suppliers’ dependable white list. More importantly for the purpose of this report: the Accord was unprecedented in its transparency. Although it did not provide public lists linking factories to brands, it did force brands to share that information with the Accord and with each other, thereby lowering the barriers for many brands to implement the same practices publicly. Furthermore, the Accord provided a lot of qualitative information: all inspection reports, corrective action plans, worker complaints and the actions taken were available online and connected to factory names. This is a wealth of information which enhanced the effectiveness of the Accord as it allowed for public monitoring on progress. Many MSIs, auditing firms, brands and governments from producing countries could certainly learn from the experience of the Bangladesh Accord.

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<sup>11</sup> The Bangladesh Accord handed over its work to the newly formed RMG Sustainability Council (RSC). The RSC includes representation from brands, unions and RMG manufacturers, and will continue the Bangladesh Accord’s mission of ensuring safety of Bangladeshi factories.

<sup>12</sup> The Clean Clothes Campaign is a witness to the Accord. All signatories can be found here.

<sup>13</sup> <https://cleanclothes.org/news/2019/the-bangladesh-accord-continues-to-operate-but-its-independence-may-be-at-risk>

# From 2016 to today. Transparency's current state of play

Following on from our 2016 demands listed in the introduction, we have registered the following developments towards corporate transparency

## *European Union and HQ countries governments*

Demands (i) and (ii) relating to corporate disclosures have been partially accomplished, whereas Demands (iii) and (iv), namely the ePassport and the establishment of a global shipping database, have not been accomplished yet, therefore we renew these demands. In relation to demands (i) and (ii), the following has been achieved:

- In 2016 the **European Union** enacted the **European Directive 2014/95/UE on the disclosure of non-financial and diversity information by certain large undertakings and groups**, requiring these companies to disclose their policies and risk assessments on their social and environmental impacts, and to issue annual reports on their non-financial impacts, providing KPIs and evidence. While this Directive represents a positive first step towards increased corporate transparency, it is very limited. It covers very few companies,<sup>14</sup> leaving out many companies active in the garment sector who should be required to report on their risks and impacts. The Directive does not provide a common reporting framework, therefore there are still vast differences in terms of reporting practices. Furthermore, the Directive does not provide clarity on the depth of information to be disclosed, and the information relating to supply chain transparency provided by companies thus far has been poor and doesn't allow for the assessment of impact.<sup>15</sup> Only 14% of the 110 Apparel and Textiles companies analysed in the report disclose their supplier lists.<sup>16</sup> Lastly, while the Directive defines categories<sup>17</sup> companies should disclose information on, these are very broad and in practice, **this means that companies cherry-pick specific issues to report on. As a consequence, data on freedom of association, working hours or living wages is virtually absent from non-financial reporting, even though these are vital in terms of understanding the fuller situation of human rights in garment supply chains.** In 2016, the United Kingdom adopted a transparency in supply chain clause in its **Modern Slavery Act**. This provision requires companies domiciled or doing business in the UK to report on the measures they take to prevent slavery or human trafficking in their supply chains. However, the implementation of this is not as strong as it needs to be, for example, the recent modern slavery allegations concerning the brand Boohoo have been public knowledge for years yet the brand faced few, if any, repercussions or changes to their purchasing practices.

<sup>14</sup> The Directive only covers large undertakings which are public-interest entities with more than 500 employees.

<sup>15</sup> At the time of writing, the Directive 2014/95/EU is being subject to an open consultation in the context of its review

<sup>16</sup> Based on the 2019 assessment on non-financial reports carried out by the Alliance for Corporate Transparency.

<http://www.allianceforcorporatetransparency.org/>

<sup>17</sup> These are i) environment, ii) social and employee issues, iii) human rights, iv) bribery and corruption.

- In 2017 **France** has enacted the **Duty of vigilance law**, which establishes a legally binding obligation for some parent companies<sup>18</sup> to identify and prevent adverse human rights and environmental impacts resulting from their own activities, from activities of companies they control, and from activities of their subcontractors and suppliers, with whom they have an established commercial relationship. Companies are required to publish a *vigilance plan*, containing information on human rights risks assessments, mitigation and monitoring measures along the supply chain.
- In 2018, **Australia** enacted the **Modern Slavery Act**. This Act requires entities based or operating in Australia, which have an annual consolidated revenue of more than \$100 million, to report annually on the risks of modern slavery in their operations and supply chains, and actions to address those risks. Other entities based, or operating, in Australia may report voluntarily. Reports are kept by the Ministry in a public repository known as the Modern Slavery Statements Register. Statements on the register may be accessed by the public, free of charge, via the internet.
- In 2019, **the Netherlands** adopted the **Child Labour due diligence law** (which will enter into force in 2022). This law requires companies to identify whether child labour is present in their global supply chains and, should this be the case, to develop a plan of action against it. The Dutch law requires companies to produce a statement which declares that the company has conducted due diligence, but does not require them to publish due diligence information on their supply chain or any risk assessment information.



<sup>18</sup> The law applies to a company's activities and that of its business relationships as defined by the law. It covers any company established in France that: at the end of two consecutive financial years employs at least five thousand employees within the company head office and its direct and indirect subsidiaries, whose head office is located on French territory; or employs at least ten thousand employees within the company and its direct and indirect subsidiaries, whose head office is located on French territory or abroad.

## *Governments of producing countries*

Demand (i), namely the enactment of non-financial reporting legislation, has not been accomplished yet. We therefore renew this demand.

With reference to demand (ii), the publication of reports from national Labour Inspectorates, governments of producing countries have not started up such a practice, however some progress must be registered in the context of the Bangladesh Accord. The Government of Bangladesh is involved as a third party in the Accord, and it receives inspection reports on Closed and Archived Factories (those falling outside of the scope of the Accord where safety hazards need to be addressed) from the Accord Steering Committee. The Bangladesh Department of Inspection for Factories and Establishments also publishes information on factories and safety.<sup>19</sup>

When it comes to customs data, it is interesting to note that the Ministry of Commerce & Industry in India grants access to the country's customs data. Information on exports and imports per commodity and per country is publicly accessible.<sup>20</sup> This is a valuable source of information that should be further developed, and replicated in other garment-producing countries.

## *Garment brands and retailers*

Demands (i) and (iii), namely to publish corporate social impact information, have been partially accomplished pursuant to EU Dir 2014/95. However, as a result of the gaps in this legislation, compliance to the Directive hasn't provided a satisfactory level of corporate transparency and accountability to date.

With reference to the textile sector, the latest available data<sup>21</sup> shows that:

- with reference to policies and procedures: only 35.5% of reporting companies provide general human rights reporting criteria; among these, 40% of companies describe detailed procedures for key issues and objectives on their supply chain management, but 0% of them have taken into account specific civil and political rights when operating in high-risk areas. Also, only 2.7% of textile companies offer whistleblowing reporting channels;<sup>22</sup>
- with reference to risk management: only 38.2% of companies have specifically described how they manage human rights supply chain risks;

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<sup>19</sup> <http://rcc.dife.gov.bd/index.php/en/home-en/about-rcc>; <https://bangladeshaccord.org/factories-handed-over-to-the-government-of-bangladesh>

<sup>20</sup> <https://commerce-app.gov.in/eidb/>

<sup>21</sup> Alliance for Corporate Transparency Sustainability Report 2019, available [here](#). 110 textile companies were analysed. With reference to supply chain transparency practices beyond the textile sector, data is even more disheartening: 67.2% of reporting companies do not provide information on the structure of their supply chain and only 3.7% publish suppliers' list. This shows how crucial it is to reform corporate transparency rules entirely.

<sup>22</sup> Through whistleblowing hotlines, workers and stakeholders can express a concern on possible company's wrongdoings which could harm the public interest, such as a factory fire safety concern.

- with reference to outcomes in terms of meeting policy targets, only 23.6% of companies have been able to report on specific outcomes in terms of supply chain management.

Demand (ii) and (iv) have been partially accomplished as a result of voluntary actions such as the Transparency Pledge and other activities initiated by MSIs.

In general, sign-ups to the Transparency Pledge have shown that transparency is feasible and alleged hindrances mentioned by companies are unfounded. By December 2019, 41 multinational apparel companies fully aligned or committed to fully align with the Pledge; 19 more are close to aligning; 15 have partially aligned.<sup>23</sup> It must be noted that the 2016 Pledge demands have paved a way for greater transparency, and since then the level of information available for disclosure within the garment sector has increased.

Such progress is reflected by the fact that, in the context of non-financial reporting, apparel companies are more likely to report on their supply chain than companies from other sectors: less than 1% of companies publicly list their suppliers, even in high-risk sectors, but 14% of apparel companies do.<sup>24</sup> While still insufficient, this shows that apparel companies fare better than other sectors.

## *Suppliers and manufacturers*

The 2016 demands from the Clean Clothes Campaign to suppliers and manufacturers, namely to publish lists of their buyers and subcontractors, as well as to make their social audit reports public and to appoint a social performance manager, have not been accomplished yet. We therefore renew these demands. However, given the power dynamics in the industry, suppliers and manufacturers may need logistical and legal help from governments in order to achieve these demands. Governments from producing countries should provide dependable public infrastructure to ensure that manufacturing companies can comply with transparency requirements.

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<sup>23</sup> Up-to-date information on the Transparency Pledge degree of accomplishment can be found [here](#)

<sup>24</sup> Alliance for Corporate Transparency [Report](#)

# Overview of companies' arguments against transparency practices

- (i) Competitive advantage in maintaining the confidentiality of their list of suppliers list,<sup>25</sup>
- (ii) Competitive advantage in maintaining the confidentiality of their purchasing strategies and pricing/paying policies;
- (iii) Indirect sourcing: the business model of many brands involves buying agents or other intermediaries, who don't want to disclose their manufacturing partners for fear of being cut out of the chain.

These arguments don't stand up to scrutiny as a high number of companies have already adhered to the Pledge, thereby disclosing information under (i) and (iii) without harming their business. With reference to argument (ii), it must be noted that brands' pricing/paying policies have a direct impact on the capacity of suppliers to pay living wages to their workers.

## SMEs and transparency practices

Small and medium enterprises (SMEs) are less inclined to engage in transparency practices as they see this as applicable only to big multinational brands, with multilayered supply chains and complex operations. Moreover, most transparency regulatory frameworks only cover large companies, leaving SMEs out of their scope. However, these smaller brands source and manufacture their products in the same countries as big brands do, and face the same risks of violating human and workers' rights. Therefore, they should be subject to the same transparency requirements.

SMEs' opposition to transparency practices are based on their fear of losing an edge over their competitors, and on the alleged difficulty in obtaining accurate information from suppliers due to their limited economic power. However, these are weak arguments as, from November 2019, SMEs began to sign up to the Pledge,<sup>26</sup> thereby demonstrating its feasibility.<sup>27</sup>

<sup>25</sup> It must be noted that this argument is supported by another landmark legislation, approved by the European Parliament in 2016. The Trade Secrets Directive no. 2016/943 recognises that suppliers lists could be a considered trade secrets worthy of protection. However, according to this legislation, several immaterial assets could be protected as trade secrets, only if they are treated as secrets. Hence keeping suppliers lists secret or disclosing them is ultimately a choice for the brand.

<sup>26</sup> Cfr. footnote 6 for source of detailed information

<sup>27</sup> In December 2017 the United Nations Economic Commission for Europe (UNECE) published as part of a three-year study the "Transparency in textile value chains in relation to the environmental, social and human health impacts of parts, components and production processes". Quoting from the UNECE report: "The case of Nudie Jeans Co., a medium sized Swedish clothing company, suggests that supply chain transparency is a useful corporate tool. Consumers exposed to traceable supply chains were more willing to buy, while at the same time they were not interacting more or differently with Nudie representatives. The author argues that transparency improves comprehensibility and comparability; however it is far from certain if in practice this is enough to motivate consumers to pressure the company to make changes (Egels-Zandén & Hansson, 2015)." (page 8)

# From today towards the (transparent) future: who should do what

The current level of corporate transparency along the value chain is unsatisfactory because it fails to provide a full picture of the social conditions under which the clothes we buy are produced.

The sector urgently needs transparency at its core, enforced by binding legislation that makes it compulsory.

More should be done:

- 1) **HQ countries governments as well as governments from producing countries shall make transparency mandatory** by enacting specific mandatory legislation on supply chain disclosure at factory and product-levels; imposing the adoption of an electronic product passport (ePassport) for all products, with a product label code linked to a website featuring information on traceability, and information relating to social and human rights impacts; amending customs legislation to require the specific disclosure of manufacturers names and addresses to the relevant customs authorities and the publication of this information; operating a standardised shipping database where cargo trading companies and FOB prices are recorded and made available to other stakeholders upon request. To foster supply-chain transparency, HQ countries governments also need to enact human rights due diligence legislation that would put in place an obligation on companies to respect human rights in their operations and supply chains. Such obligation would include transparency on the due diligence process, the supply chain and on wages paid in the supply-chain, with awareness of risks and rights all the way down the supply chain, according to the “leave no one behind” principle.
- 2) As the Transparency Pledge requires a minimum level of information disclosure, **garment brands and retailers** should go beyond it. Transparency is vital to the due diligence process, and the level of transparency shown by a brand is directly connected to the level of control they have over their supply chain: in other words, having that information indicates that the company has carried out due diligence on their suppliers. All brands, regardless of size, have the economic power to influence their suppliers behaviour, and they **should be setting the tone from the top**, by disclosing:
  - **Suppliers’ information along the supply chain** (ideally from the point at which the raw material becomes fabric) with their full name, address, type of product

made, number of workers; suppliers shall be given a unique ID number to facilitate data processing,<sup>28</sup>

- **Social data on each supplier**, including (i) supplier's salary costs divided by gender and migrant status,<sup>29</sup> (ii) employment status, (iii) presence of unions at the factory;
- **Economic information with reference to manufactured orders**: (i) price paid before FOB, (ii) volumes of orders, and (iii) purchasing and payment practices;<sup>30</sup>
- **Information on access to grievance mechanisms** which the brand has in place in order to address workers and other stakeholders complaints, how often they are used and what their impacts and results are;
- **Relevant information on auditing annual reports** of the supplier;
- **Product information** on an electronic passport (ePassport) included in the garment's label which allows end consumers to trace the product's origin through a website containing traceability information.

3) In order to enable transparency from the bottom up, and to illustrate their commitment to respecting human rights, **suppliers and manufacturers** should disclose their social impact information too. Comprising:

- **Number of workers** in each department and grade (including **gender breakdown**), number of migrant and juvenile workers, percentage turnover of workers;
- **Wage at each grade and by gender**, number and percentage of short-term and/or contract workers, average overtime hours in a month;
- Presence of **collective bargaining agreements** and grievance mechanisms, **number of grievances filed by workers**;
- **Number of accidents** causing injuries in the recent period;
- **Existence of a joint worker-management committee** to discuss grievances or complaints.

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<sup>28</sup> Textile production starts off with spinning and the weaving. The problem is that the garment supply chain is very fragmented, populated by subcontractors and informal workers. Also, lacking common reporting standards, when brands assign a category to their suppliers, subcontractors, and agents, they might relate to different contractual relationships

<sup>29</sup> Isolated labour costs are sufficient for assessing whether the supplier is paying a living wage to its workers

<sup>30</sup> As suppliers depend almost entirely on brands, it is crucial that they are given the financial means with which to process orders, rather than having to anticipate resources. This also helps suppliers to pay regular wages and to plan financially

# What good supply chain transparency looks like

Companies shall provide consistent, accessible and up-to-date information. This is vital for accountability, as it allows for transparency efforts to be effectively actionable by stakeholders (workers, civil society organisations, competitors, public enforcers). This is an open issue, as currently companies provide scattered data, often in non-machine readable formats (html and pdf files, maps) and on website's pages which are not always easy to find. Additionally, historical information is not updated and therefore does not include terminated suppliers (information which is equally important in order to assess a company's social responsibility). With reference to existing suppliers, the names of their factories might be spelt differently on different lists and this makes it challenging to identify them. It is therefore necessary that disclosed information:

- Is provided in machine readable formats allowing for extraction, comparison and analysis (.csv, .json or .xlsx);
- Extends to historical data and is regularly updated;
- Refers to suppliers by a unique factory ID number;
- Is published using a common disclosure template;<sup>31</sup>
- Uses an open license such as the [Open Data Commons database license](https://odsas.org/), to explicitly give permission for reuse, by copying and pasting it on the supplier list page.



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<sup>31</sup> <https://odsas.org/>

# Clean Clothes Campaign policy demands on transparency

With reference to corporate transparency requirements, the European Union has the opportunity to lead change through legislative reforms which could then trigger policy reforms in non-EU consumer countries. Furthermore, if companies operating in the European single market were mandated to high transparency standards, they might also apply those standards in their global operations, thereby creating a circle of transparency in international markets.

The European Union should enact the following reforms:

- 1) Strengthen the **Non-Financial Disclosure Directive** to:
  - a. specify clear mandatory requirements for reporting on human rights risks, impacts and their management based on the UNGPs,<sup>32</sup> and allow the establishment of further reporting criteria on particular risks of specific sectors.
  - b. require supply-chain disclosure (production units and processing facilities) from, at a minimum, companies in high-risk sectors where violations are rife, such as garment. The supplier list should include machine-readable information on all production units and processing facilities, as well as the name, address, and parent company of the business, type of products made and number of workers at each site
- 2) Establish an information system for companies to report and disclose adequate and transparent information on factory-level and product-level. Access to this information system should be free, unlimited and according to established Open Data standards.
- 3) Advance human rights due diligence legislation, putting in place an obligation on companies to respect human rights in their operations and supply chains. This includes: transparency on the due diligence process, on the supply chain, on wages paid in the supply chain, worker rights, gender rights and the awareness of risks and rights all the way down the supply chain, according to the “leave no-one behind” principle.

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<sup>32</sup> The Clean Clothes Campaign specifically advocates for the adoption of one reporting standard for all companies which shall be the UNGP Reporting Framework. <https://www.ungpreporting.org/>. The [UNECE report](#) also recommends “the need to harmonize existing standards, certifications, and regulatory frameworks to help tackle producer and consumer confusion towards multiple approaches” (page 11).

- 4) Strengthen the EU Public Procurement Directive to include supply chain transparency requirements for companies wishing to participate in any European or domestic public tender.
- 5) Increase transparency at product level to empower citizens: expand the type of compulsory information on labeling of textiles to include information on the manufacturing process and locations, social aspects and product life cycle. This could also take the form of an electronic EU product passport.
- 6) Call for EU and member states legislation on minimum and living wages, and require companies to publish the wages levels in their domestic operations and along their supply chain. Such data should be disaggregated by gender, migrant workers and employment status and with awareness of risks and rights all the way down the supply chain.
- 7) Call for mandatory disclosure of data on the lowest wage level paid by each supplier in each production country, excluding benefits and bonuses. This should include information on gender, migrant workers and employment status and with awareness of risks and rights all the way down the supply chain.