

# Ethical trading requirements

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## Countries and associated businesses which apply these requirements

UK	ROI	HU	PL	CZ	SK	TR	KR	MY	TH	JV China/ India
Y	Y	Y?	Y?	Y?	Y?	Y?	Y	Y?	Y	Y?

Group Food	Group Procurement	International Sourcing	Clothing	Hardlines	Developing Business's	New Food Experience
Y	Y	Y	Y	Y	Y?	Y?
N = No		N/R = Not Relevant		Y = Yes	Y? = Yes with differences	

### Scope:

- Tesco brand products (including unpackaged goods and Tesco owned brands e.g. F+F, Homeplus etc.)
- Goods not for resale and services to Tesco/Tesco customers managed by Group Procurement

### Policy statement

We aim to act responsibly in our commercial and trading activities. We cannot claim to have all the answers to complex ethical or social issues. However, we will do what we can to ensure that the working conditions of people working for our suppliers will meet relevant international standards.

We want our customers to know that everything we buy is produced under decent conditions, and everyone involved is treated fairly. To enable this, we expect our suppliers of products and services to comply with the Base Code of the Ethical Trading Initiative ([www.ethicaltrade.org](http://www.ethicaltrade.org)) and local law, whichever offers the greater protection for workers. Where conditions do not yet comply, we expect suppliers to be transparent with us about the differences and committed to improving those issues, and we will support this improvement.

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### For further information

Any questions concerning this document should be sent to [Paul.Dearman@uk.tesco.com](mailto:Paul.Dearman@uk.tesco.com)



## Other documents that should be referred to in support of the policy

Tesco Ethical Trading Policy	10225
Tesco recognised ethical audit bodies	80045(a)
Tesco Product Rule 16:	The ethical performance of a site must be monitored to ensure that relevant international standards are being met for the people working there.

## How to use this document

Adherence to these requirements is a condition of supply to Tesco, therefore suppliers and sites are expected to read and implement it, along with the requirements of the ETI base code. Any questions concerning this document should be sent to your Tesco supplier standards contact (e.g. Technical Manager, Ethical Specialist or Buying Manager).

### 1. Supplier and site registration on Sedex

- All 1<sup>st</sup> tier production sites must be approved by Tesco before Tesco production commences in accordance with Tesco technical and ethical procedures.
- Suppliers and sites producing for Tesco Stores UK Ltd., Group Food Sourcing, International Sourcing or Group Procurement must also register on Sedex and ensure they are linked and visible to the correct Tesco department(s) in order to share information with Tesco efficiently
- In some cases, second or third tier sites (e.g. farms, external processors) will also need to be registered and visible to Tesco on Sedex – please refer to any appendices supplied by your Tesco supplier standards contact.
- Sub-contracting Tesco production (either in full or specific processes) is prohibited without formal written permission from Tesco. In some cases, ethical audits of sub-contractors may be required. Please confirm with your Tesco supplier standards contact

**The specific systems that each supplier needs to be registered on will be confirmed by the relevant Tesco supplier standards contact**

### 2. Risk assessment

- Suppliers or sites may be required to complete a self-assessment questionnaire either on Sedex or using an off-line questionnaire. This must include details of all temporary staff, labour agencies or homeworkers used
- All first tier production sites and service suppliers will be assigned a risk rating of High, Medium or Low
- The risk assessment will determine whether an ethical audit is required before production starts for Tesco or within an agreed timeframe after the start of production
- The risk assessment also determines audit frequency (typically annually for high risk sites/service suppliers, every two years for medium risk sites/service suppliers, or as advised by Tesco)
- Risk assessments and audit frequencies may be revised (up or down) depending on the performance of suppliers/sites over time

**Any site supplying Tesco may be subject to an unannounced ethical audit at any time, regardless of their risk level.**

### 3. Ethical audits

3.1 Tesco is committed to conducting audits which create an accurate picture of conditions and which will help suppliers to improve any areas of concern.

- Tesco will advise which type of ethical audit is required, the potential options are:
  - Tesco recognised 3<sup>rd</sup> party or scheme
  - Tesco approved second party auditor
  - Tesco ethical specialist
- In most cases audits are conducted on a semi-announced basis (at any point within a 4 week window) unless agreed otherwise by the Group Ethical Trading Team
- Audits must be conducted when the site is fully operational, preferably in peak production periods (i.e. not during public holidays, maintenance periods or other times of reduced operation)
  - High risk sites are required to undertake an audit before production for Tesco commences



- Any critical issues identified, whether through audits or visits, must be addressed before commencing production for Tesco
- Tesco also reserves the right to access all Tesco approved sites at any time when the site is operating, regardless of whether or not Tesco production is in progress at the time
- The cost of the audit, travel and any associated costs of uploading the report onto Sedex or other Tesco system will be borne by the supplier (unless otherwise agreed). Audit companies typically require payment in advance
- Tesco requires suppliers to cooperate fully with the audit process, including:
  - Ensuring auditors have timely access to all areas of the site (including any areas which are shared or leased to other organisations), personnel, temporary / agency labour and relevant records
  - All records presented must be truthful
  - Staff interviews are allowed to be conducted confidentially in a suitable location agreed by the auditor, without observation or interference from management. Interviewees must not be coached or pressurised into revealing what they discussed
- On-going audit frequency for approved sites/suppliers (unless confirmed differently by Tesco):
  - every year for high risk sites/suppliers
  - every 2 years for medium risk sites/suppliers

A description of the ethical audit process is included in Annex 1.

3.2 The relevant Tesco supplier standards contact will confirm which audit body(s) may be used. The list of Tesco recognised audit bodies for each country is available on the Tesco Technical Library (document 80045(a)). It may also be provided on request from [ethicalsupport@uk.tesco.com](mailto:ethicalsupport@uk.tesco.com).

3.3 Where suppliers book audits directly with Tesco recognised audit bodies, it is essential that the supplier makes clear to the audit company that the site is either proposed for use by, or currently supplying Tesco, so that the audit company assigns auditors who meet Tesco requirements. **Failure to meet Tesco requirements may result in a further audit being conducted at the supplier's cost.**

3.4 The mandatory scope of any ethical audit includes labour standards and health and safety (referred to by SMETA as a 2-pillar audit). Environmental performance and business practices assessment may be added at the suppliers' request (referred to by SMETA as a 4-pillar audit). Where there are concerns about fire or building structural safety, additional assessment by Tesco authorised specialists may be required.

3.5 If suppliers have a complaint about the service provided by an auditor or audit company, this should be raised directly with the audit company. If the issue is not resolved promptly, the supplier may contact the Tesco Group Ethical Trading Team for advice or support.

**Any attempt to pervert the course of the audit through fraud, bribery, coercion, intimidation, deception or interference will be treated as a critical non-compliance and reported to Tesco.**

#### 4. Audit reports

At the end of the audit, the auditor will provide a verbal summary of the audit findings and a written summary of non-compliances.

After the audit, the audit body will issue a full written report in PDF format (normally in 5 working days). The audit body is required to upload the audit report onto Sedex, and the supplier is responsible for ensuring that it is published so that Tesco may access the report. (Where Sedex is not used, the supplier must forward the report to their Tesco contact as soon as it becomes available).

The auditor may also submit an alert notification to Tesco within 24 hours if any critical issues are identified.



## 5. Corrective action and verification

5.1 At the end of the audit a 'Corrective Action Plan Report (CAPR)' will be initiated by the auditor and discussed with the site/supplier representatives. In most cases this is a high level list of actions that need to be taken, the timescales for completion, and an indication of whether or not a follow-up visit is required.

- It is expected that the site/supplier will develop more detailed plans after the audit, in consultation with relevant people in their organisation, to make these plans more specific. For more complex problems, plans may need to be broken down into a series of next steps and timescales.
- Any issues identified as 'critical' by the auditor or Tesco must be addressed immediately to reduce or remove the immediate risk while a more comprehensive action plan is put in place.
- Plans should include details of what action the site/supplier will take to ensure that the problem does not reoccur in future. In many cases this may require systems/procedures to be updated or put in place.
- The detailed action plans should be communicated to Tesco (either on Sedex or directly, as appropriate).

5.2 Regular updates must be provided as action plans progress or are completed. In most cases these updates should be made on Sedex (where used). Where requested by Tesco, updates should be sent directly to Tesco or uploaded onto the relevant Tesco system.

5.3 All corrective actions need to be verified by the auditor or by Tesco within agreed timescales (within 6 months for most issues). Critical issue action plans must be verified as soon as possible. Where Sedex is used, the supplier is responsible for contacting the audit body to arrange for desktop sign-off or a follow-up visit (as appropriate).

Follow-up visits to audits where inconsistent records have been identified must be semi-announced.

**Production for Tesco may be suspended, delayed or ultimately cancelled if timely and satisfactory action is not taken.**

## 6. Capacity building and improvement

6.1 Tesco recognises that sites/suppliers sometimes need support to improve, particular with issues which are endemic within an industry or geographical area.

6.2 Tesco has its own Ethical Specialists based in key sourcing locations that are able to provide advice and guidance. Where appropriate, Tesco may recommend engaging with other organisations or programmes with appropriate expertise.

6.3 Tesco also runs workshops and training events from time to time. These events are usually conducted in the local language for ease of understanding. Suppliers/sites may be invited to relevant events.

6.4 Tesco is committed to working with suppliers who are committed to improving themselves. Participating in training events offered by other customers is also encouraged.



## Annex 1: Ethical audit process

Audits are conducted by teams of auditors who are recognised as competent to audit and interview workers. The size and composition of the audit team and audit duration are based on information supplied by the supplier / site, and take into consideration the gender profile of the workforce and the main languages spoken at the site.

The audit process will include:

- Opening meeting with senior management
- A walk-round of the facilities
- Interviews with management, administration staff, worker representatives (e.g. union officials) and workers (worker interviews take place without management being present)
- Document review
- Closing meeting with management

A more detailed explanation can be found in the SMETA Best practice Guidance document:

[http://www.sedex.org.uk/sedex/website/pdf/smeta\\_best\\_practice\\_guidance.pdf](http://www.sedex.org.uk/sedex/website/pdf/smeta_best_practice_guidance.pdf)

The site should be left with a hard copy Corrective Action Plan Report (CAPR) detailing non-compliances identified during the audit. Full written audit reports will be completed and uploaded on Sedex (normally in 5 working days) and must be 'published' to Tesco immediately (or sent to Tesco immediately if Sedex is not being used).



## Annex 2: Ethical Trading Initiative (ETI)

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

‘The Ethical Trading Initiative (ETI) is a ground-breaking alliance of companies, trade unions and voluntary organisations. We work in partnership to improve the lives of poor and vulnerable workers across the globe who make or grow consumer goods - everything from tea to T-shirts, from flowers to footballs.’

The ETI base code is the reference used by Tesco (in addition to labour laws where the site/supplier is based). The base code is derived from International Labour Organisation (ILO) core conventions and covers 9 key areas:

- Employment is freely chosen
- Freedom of association and the right to collective bargaining is respected
- Working conditions are safe and hygienic
- Child labour shall not be used
- Living wages are paid
- Working hours are not excessive
- No discrimination is practised
- Regular employment is provided
- No harsh or inhumane treatment is allowed

The base code is available in a variety of languages:

<http://www.ethicaltrade.org/resources/key-eti-resources/eti-base-code>



### Annex 3: Sedex

Sedex (Suppliers Ethical Data Exchange) is a not for profit membership organisation dedicated to driving improvements in ethical and responsible business practices in global supply chains.

SEDEX is a secure web-based system for companies to store and maintain data on labour standards at production sites. This data is made available to companies with which they are in a trading relationship, in order to drive and demonstrate improvements. There is a membership fee which depends on which class of membership is appropriate.

**A members** – Retailers who want to monitor and work with data regarding ethical trade.

**B members** – Factories, Growers, Production sites and Service Provider companies who are maintaining data.

**AB members** – Brands, Manufacturers or Importers who want to maintain data on their production sites and look at key data about their suppliers.

Detailed information on how to register and upload data is provided on the Sedex website:

<http://www.sedexglobal.com/>

The system includes self-assessment questionnaires. Use the one which is most appropriate to your business (manufacturing, agriculture, intermediaries and service providers)

Training guides on how to use the system correctly are available on the Sedex website. In addition, Sedex also offer training events in different locations globally and operate a helpdesk service from the UK, China and USA.

The Ethical Support team are also able to provide some guidance (in English) [ethicalsupport@uk.tesco.com](mailto:ethicalsupport@uk.tesco.com)



## Annex 4: Non-compliance grading

Tesco reviews non-compliances raised against local law, the ETI base code or Tesco policies and classifies each one as critical, major or minor. Some issues which are borderline may be recorded as observations.

Action must be taken by the supplier to ensure that the most serious ('Critical') issues are addressed first. In some cases it may take a long time to fully resolve an issue (e.g. excess overtime). Where this is the case, the supplier should discuss the issue with Tesco and develop plans which reduce the severity of the problem in stages against agreed milestones and timescales.





Terminology	Definition
Auditor Recognition Programme (ARP)	Tesco process for assessing, recognising and contracting Third Party Audit Companies and named auditors to undertake ethical audits at Tesco suppliers.
Corrective Action Plan Report (CAPR)	A plan formulated by the supplier to close out non-compliances. Each non-compliance must have a Corrective Action Plan and should be tracked in an overall report. Sometimes referred to as a 'CAP'.
Critical Non-compliance	<p>A critical non-compliance is:</p> <ul style="list-style-type: none"> <li>• An issue which presents imminent risk to workers' safety/risk to life and limb or constitutes a significant breach of workers' human rights, and/or;</li> <li>• A major non-compliance that has not been addressed or for which no significant improvement has been made by the time of a follow up audit, in spite of supplier commitment to resolve the issue.</li> <li>• An attempt to pervert the course of the audit through fraud, coercion, deception or interference.</li> </ul> <p>Critical non-compliances include:</p> <ul style="list-style-type: none"> <li>• Inconsistencies between different types of documents and worker testimony</li> <li>• Child labour (reported or confirmed through documentation).</li> <li>• Involuntary, indentured, or involuntary prison labour (including forced overtime and absence of payment)</li> <li>• Workers subjected to physical abuse</li> <li>• Workers subjected to sexual harassment or abuse</li> <li>• Workers in immediate danger</li> <li>• Workers not being paid at all</li> <li>• Workers subjected to discriminatory practices (e.g. during recruitment, workers are tested for medical conditions not required by law or product safety requirements, e.g. pregnancy, HIV/AIDS, hepatitis etc.)</li> <li>• Union members, union or worker representatives are actively harassed, penalised or discriminated (directly or indirectly) against</li> <li>• Attempted bribery</li> <li>• Auditors denied access or obstructed from conducting a proper audit</li> <li>• Evidence of the deliberate provision of false information to auditors so as to disguise unfair labour conditions.</li> </ul> <p>These require immediate action before a site starts or continues to supply Tesco</p>
Ethical risk assessment	The process of assessing risk relating to labour standards at a supplier site. Ethical risk assessments cover site profile (e.g. number of male / female, temporary / permanent workers), labour standards, sector and country. Information from Tesco staff site visits, NGO or Trade Union reports, whistle-blowers, etc. may be taken into consideration. A site's ethical risk assessment can change over time, and is used to determine whether an audit is required, and if so the frequency (see <i>Full ethical audit</i> ).
Full Ethical audit	A comprehensive audit of labour standards at a supplier site. A full ethical audit for Tesco covers all nine provisions of the Ethical Trading Initiative (ETI) Base Code, is conducted by qualified auditors using the SMETA approach. See <i>Verification Audit</i>
Non-compliance	A breach of the provision of the ETI Base Code or applicable labour law as identified during the course of an audit and reported in an ethical audit report. These are



	categorised as either critical, major (substantial failure) or minor (isolated lapse).
Operating Company	A company which is a part of the Tesco Group.
First tier site	A site that manufactures, processes, assembles or packs Tesco brand or Tesco specified products. For the purposes of ethical trading, primary site also includes service providers which operate on Tesco premises
Second tier site	A site that grows, processes or manufactures components used by the first tier site
Semi-announced Ethical Audit	Independent ethical audit. Conducted at any time within a period of one calendar month.
Schemes	An industry or sector scheme or multi-stakeholder initiative with expertise in ethical auditing in a particular industry or region. A typical scheme might run its own certification programme for participating suppliers, manage its own approval process for auditors, and develop and maintain its own methodology or guidelines for best practice ethical auditing in that area.
Service Provider	A company providing services to Tesco either on a Tesco site or from its own premises. Such suppliers might need a 'multi-site audit' the methodology of which is determined by the Sedex Members Ethical Trade Audit protocol for Service Providers. <a href="http://www.sedexglobal.com/wp-content/uploads/2011/06/SMETA-Service-Providers-Publicly-available-Jul-2013.pdf">http://www.sedexglobal.com/wp-content/uploads/2011/06/SMETA-Service-Providers-Publicly-available-Jul-2013.pdf</a>
SMETA Guidelines	Sedex Members Ethical Trade Audit Guidelines The guidelines set out best practice for the planning, conducting and reporting of ethical audits. They are developed and maintained by the Sedex Association Auditor Group and can be downloaded from the Sedex website
Sub-contracting	The practice of engaging another business or entity to perform a service on your behalf. Unauthorised subcontracting is any activity that Tesco expects to take place at a specified site but is actually performed elsewhere without the knowledge or prior written agreement of Tesco. Unauthorised subcontracting is prohibited.
Tesco brand	Any product that carries the name Tesco or any other brand name owned or licensed by the Tesco Group (e.g. F+F, Homeplus, Kipa) or loose products.
Tesco-specified product	Any product not for re-sale that Tesco has specified to an extent that the item is exclusive to Tesco, or any product not for re-sale which carries the Tesco brand.
Third Party	Service providers who carry out work for Tesco Operating Companies, and are recognised through the Tesco Auditor Recognition Programme. A Third Party may be a company, an NGO or a scheme (see above). Third Parties do not have the authority to make decisions on behalf of Tesco.
Verification / Verification audit	The process of checking that a Corrective Action Plan Report for a given non-compliance has been completed satisfactorily and resulted in the closure of the non-compliance in question. For Tesco verification must be independent, i.e. carried out by a Third Party, normally at the supplier's expense. Third Parties employ different methods for verification: see Section 5.4 for more details.
Unannounced Ethical Audit	An independent ethical audit arranged by Tesco without previously informing the supplier or site.