

## BRIEFING

# IFM Investors' engagement with Wesfarmers: Ethical Sourcing in Agricultural and Apparel Supply Chains

May 2018

## LISTED EQUITIES

IFM Investors has been actively engaging with Wesfarmers (ASX: WES), one of Australia's largest listed companies and owner of major local retail brands, for a number of years. At an investor briefing hosted by IFM Investors on 1 May 2018, Wesfarmers representatives provided

an update on the progress of the company's oversight and management of their agricultural and apparel supply chains within the Coles, Kmart and Target businesses.

Wesfarmers attendees included representatives from Investor Relations, Coles' Responsible Sourcing and Quality, and Department Stores' Sustainability Development teams. IFM Investors representatives included members of the Listed Equities and Responsible Investment teams. A number of investors and ACSI representatives were also in attendance.

The number of investors who attended and the enthusiastic volume of questions put forward reflect the continued high priority IFM Investors and the investor community place on labour and human rights issues in the supply chain.



**Kmart and Target are not only working towards improving working conditions, but also reducing the environmental impact of global cotton production**





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This latest briefing follows previous IFM Investors-initiated briefings by Wesfarmers on risk in their domestic and international supply chains, particularly for Coles supermarkets.

### Progress at Coles

Wesfarmers has been taking further proactive steps over the past six to eight months to minimise potential for labour and human rights risks in its supply chain. It is focused on ensuring that all Coles brand suppliers are compliant with Coles' expectations on ethical sourcing, as outlined in its Ethical Sourcing Policy. This policy is primarily based on

the Ethical Trade Initiative (ETI) and International Labour Organisation (ILO) conventions and applies to all suppliers.

Coles outlined their progress in relation to:

- Human rights policy setting and awareness raising amongst suppliers;
- Expansion of its supplier monitoring program through the SEDEX ethical sourcing platform;
- Education and training for employees and suppliers;
- Stakeholder engagement via their involvement and membership of several best practice industry collaborations; and
- Advocacy aimed at improving regulatory standards and licensing.

Coles also acknowledged the heightened labour risks associated with labour hire and is committed to supporting and advocating for a stronger licensing regime for all states. Coles is working closely with suppliers who engage labour hire firms to ensure workers are treated appropriately and labour standards are consistently maintained.

### Progress at Kmart & Target

The Australian department stores outlined their approach to ensuring basic human rights are respected across their domestic and international apparel supply chains.

Of note is Kmart and Target's membership of, and active involvement with, several best practice industry collaborations that are working to improve conditions in the garment industry. Joining some of the world's biggest global apparel brands,

## An active approach to ESG issues

As active owners, IFM Investors believes an active approach to company engagement is critical to the advancement and promotion of ESG investment principles. This approach aligns with our Responsible Investment Charter and the values of our clients and their beneficiaries.

IFM Investors encourages responsible corporate behaviour through company engagement and by exercising our ownership rights to vote on company resolutions. Through these activities, we take an active stance on material ESG issues to help protect and enhance the value of our clients' and their members' investments over the long term.

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Kmart and Target are members of the ILO/International Finance Corporation (IFC) Better Work<sup>1</sup> program to improve working conditions in the garment industry. They are also signatories to Action Collaboration Transformation (ACT)<sup>2</sup>, an agreement between global brands, retailers and trade unions to achieve 'living wages' for workers.

Coles acknowledged that despite having a team of about 500 people directly involved with suppliers in Asia, the company's oversight of Tier 2 suppliers is still evolving.

### Supply chain environmental issues also on agenda

Both parties outlined initiatives focusing on another priority issue for investors: reducing environmental impact in the supply chain.

At Coles, responsible packaging initiatives are underway, in addition to

consumer education campaigns as the 1 July single-use plastic bag ban in Australia fast approaches.

As members of the Better Cotton Initiative<sup>3</sup>, Kmart and Target are not only working towards improving working conditions, but also reducing the environmental impact of global cotton production.

### Ongoing action required to manage significant supply chain risks

IFM Investors was pleased to hear the progress Wesfarmers had made in the oversight and management of its agricultural and apparel supply chains. However, in the context of disparate legislative requirements across Australia, a huge number of suppliers over large and diverse geographies, and the limited resources of the Fair Work Ombudsman to investigate claims, IFM Investors concluded that significant risks relating to Coles' domestic supply chain remain for both workers and investors.

IFM Investors will continue to work both directly and with ACSI to pursue conversations with Wesfarmers and other companies regarding labour and human rights issues in the supply chain.

Wesfarmers will provide an update on sourcing and supply chain management in its 2018 Sustainability Report, scheduled for release in September. **II**

<sup>1</sup> <https://betterwork.org/>, <sup>2</sup> <https://actonlivingwages.com/>,

<sup>3</sup> <https://bettercotton.org/>



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