HOUSES OF PARLIAMENT

Joint Committee on Draft Modern Slavery Bill

Oral evidence: Draft Modern Slavery Bill, HC [1019], Tuesday 11 March 2014

Watch the meeting

Ordered by the House of Commons to be published on 11 March 2014.

Members present: Mr Frank Field (Chairman), Baroness Butler-Sloss, The Lord Bishop of Derby, Baroness Doocey, Baroness Hanham, Baroness Kennedy of Cradley, Lord McColl of Dulwich, Lord Warner, Fiona Bruce, Fiona Mactaggart, Sir John Randall, Mrs Caroline Spelman and Sir Andrew Stunell

Questions [1154 - 1221]

Witnesses: **Paul Lister**, Director of Legal Services and Company Secretary, ABF, Primark, **Giles Bolton**, Ethical Trading Director, Tesco, and **Judith Batchelar**, Director of Brand, Sainsbury's, examined.

Q1154 Chairman: Before we ask you to identify yourselves, I invite the Committee to declare any interests, which will show what degree of putty we will be in your hands.

Baroness Butler-Sloss: I should like to declare a slightly unusual interest, in that my son is married to John Sainsbury's daughter.

Chairman: Could I also declare an interest? Both Tesco and Sainsbury's support projects that I support—financially, that is. I will therefore take one of the tougher questions to you, just to show that one can bite the hand that feeds one. Might you begin by each identifying yourselves for the sake of the record?

Giles Bolton: I am Giles Bolton. I am the director of ethical trading for Tesco—ethical trading meaning responsibility for ensuring that people in the factories and on the farms that supply us are treated decently.

Judith Batchelar: I am Judith Batchelar. I am director of Sainsbury's brand. I am responsible for all of the products that Sainsbury's sells that bear the Sainsbury's name. That includes all the sourcing standards, including, obviously, ethical standards.

Paul Lister: I am Paul Lister. I am director of legal services and company secretary at Associated British Foods. Primark is one of our subsidiaries. I am responsible for ethics throughout Associated British Foods.

Q1155 Sir John Randall: Good morning. In evidence, we have heard proposals—both legislative and non-legislative—to try to eradicate modern slavery from the supply chains. I would like to know whether your companies support such moves and whether you think that the way forward is legislative or non-legislative. To give you some idea, we are looking at the Companies Act, where you already have a requirement on environmental and human rights issues. One possibility would be for us to add modern slavery into that. Have you looked at, or do you have any experience of, the Californian legislation, or should we just have due diligence requirements rather similar to those in the Bribery Act?

Giles Bolton: Because we want to deliver what customers want—and customers do not want to have slavery or other forms of exploitation involved in the products they buy— we would like to think that, regardless of legislation, we will be ahead of what legislation asks us for. I do not see the California Act as something that would give me concern and I would be comfortable with that. I am less of an expert in the Bribery Act, but the principle of being on the record about these issues is not one that is uncomfortable. For me, what matters is that for large companies, certainly, there should be key performance indicators around these issues in our business internally, there should be accountability to senior people and we should be prepared to be on the record about what we do about them.

Judith Batchelar: I agree with much of what Giles has just said. In relation to the inclusion of modern slavery in the Companies Act, in our organisation, Sainsbury's, human rights would cover those labour rights as well. We already include those in our definition, so that is not a problem for us. We already do much of what is written in the California Act. We have key performance indicators and targets on which we report. As part of our values statement, we already have a board director, Mike Coupe, who is responsible for sourcing with integrity, under which this comes. He reports in turn to a non-exec director on the plc board, Jean Tomlin, who takes responsibility for that, so that board structure and reporting is already in place.

In terms of the other aspects of the California Act, what is not clear is the detail of that reporting requirement. Our preference would be that any reporting requirement should build on existing reporting rather than add an extra level of burden. In all of these things, we would rather place our resources on dealing with the issues rather than reporting on them. We are happy to report, but I am not quite sure what level of reporting would be required. We would be a bit nervous about that.

Paul Lister: I support some of the statements that have been made. We would have no issue with any addition to the Companies Act. On human rights, we would expect to have been as transparent as the Companies Act requires, in any event. It is on our website, where we put it up on a constant basis, so we would have no issue with any extension to the Companies Act to include slavery.

For us, it is early days for the California Act. Although the Act has been around for a while, it is still early to see how it develops, but I do not think we would have any concerns in relation to it. Due diligence under the Bribery Act is tricky. It is an extensive process. For an extensive supply chain, it could prove to be very burdensome, because the due diligence for the Bribery Act itself is burdensome. That extra burden could be difficult.

Q1156 Sir John Randall: The Companies Act covers only certain companies—listed companies and companies of a certain size. Would you see that as giving you an unfair position because other, smaller companies might not have to do the same, or would you regard it as a positive retail advantage because people would know that when dealing with your companies they were safe from buying products that might be tinged with the stigma of modern slavery in their supply chains? In other words, would you like it to be extended to other companies, or would you like to be able to say, “Don’t trust them necessarily—go to somebody you can trust”?

Judith Batchelar: One of the things we are very conscious of is that, when you are dealing with criminal activity, criminals gravitate to the point of least resistance. My job at Sainsbury’s is to make sure that we are the toughest target for any criminal activity, whatever that might be—modern slavery, food fraud or other issues that constitute criminal activity. If you do not have a level playing field on some of these things, criminal activity will gravitate to those points, anywhere in a value chain. That is the one thing we would be concerned about.

Q1157 Sir John Randall: But, generally speaking, bearing in mind what you are doing already, you would not regard at least the first two options as burdensome. We have heard that a lot of people elsewhere are concerned that this would be an extra burden on business. You would not regard it as an extra burden because you are doing it already.

Paul Lister: Absolutely.

Judith Batchelar: Yes.

Q1158 Chairman: On John's point, Judith has said what Sainsbury's does in this respect. If we proposed amending the Companies Act so that after "human rights" it said "and especially modern-day slavery," and had a requirement for a senior non-executive director to take responsibility for this, so that that person was responsible for the part of your annual report that reported progress on it, could that sort of move be welcomed by good businesses?

Giles Bolton: It absolutely matters that there is senior ownership of, and accountability for, these issues at the top of large businesses. In Tesco's case, I report on ethical trading to the group commercial committee of our executive, which is chaired by our group chief executive. That is a direct executive accountability for it. We believe that reflects the gravity of the obligation. We do not have that direct relationship with a non-executive on that, but it is taken with the utmost seriousness in the business and is in our core key performance indicators for any of our supply chain management. That is the situation we are in.

Q1159 Chairman: So you might get a promotion under this proposal. Judith, I understand Sainsbury's position, which is clear. Paul?

Paul Lister: Can I deal with the words that you have used and the word "especially"? I have no issue with the inclusion of slavery. The question is whether we say "and especially slavery," "including slavery" or something else. Human rights are not just slavery—we have a whole list of issues we look at on a constant basis. An emphasis on one particular element may be a disservice to the other elements. In looking at the overall picture, I am not quite sure what the wording should be—whether it should be "and" or "including"—but I would not necessarily want there to be a particular focus on slavery with the words "and especially." That would detract from the other elements.

Given my responsibility, I report on a regular basis to our board. As company secretary, I sit at the boardroom table. Our plc board has taken the view that it is jointly responsible for risk. We see ethical trade as a risk, and the board is collectively responsible for risk. I am not sure, therefore, that we need a particular person to have particular responsibility for this particular issue, given that the board has taken overall responsibility for the issue.

Q1160 Chairman: But if the buck were initially to stop anywhere, it would stop with you on the board, wouldn't it?

Paul Lister: It would. I am responsible for it, so the buck would absolutely stop there. I do not sit on the board—I am at the boardroom table as company secretary—but I do report to the board. In relation to risk, the board would take full responsibility. This is an element of risk that we look at on a constant basis. I report formally to the board annually on ethical trade.

Q1161 Baroness Doocey: Do you think it is the role of large companies to drive change in this area? Have your companies discussed legislating for supply chain reporting with any of the Government Departments?

Paul Lister: Just after Rana Plaza, a proposal came forward in relation to some sort of kitemark on ethical trade. I am not sure where it has got to, but that would have been an interesting proposal because it would have driven some sort of change in relation to the ability or not to achieve that kitemark. If a company could achieve the kitemark, clearly, it would have an advantage: people would see that it had taken the issue seriously, the underlying efforts would be transparent and so on. I am not sure where that got to, but it would have been a good proposal.

Q1162 Baroness Doocey: Do you believe it is the right thing to do for large companies to drive change?

Paul Lister: Absolutely.

Q1163 Baroness Doocey: What about you, Judith?

Judith Batchelar: I agree. It is fundamental to what we are because we have a vision to be the most trusted retailer. We would say that being trusted is not just wishful thinking or a nice thing to do—you have to plan to be trusted. The things that have happened over the last 10 years, since the formation of the GLA, and the project work we have done with the GLA such as the "Stronger Together" initiative, are definitely driving change; I have seen that in the last 10 years. Of course, those things are all voluntary.

In terms of markings on packaging and third-party authentication of value chains and how they operate, we do that in a number of areas already for other ethical things such as fair trade, the Marine Stewardship Council and the Forestry Stewardship Council. To be fair, customers recognise it but do not necessarily understand what it means. What really matters is our name on a product. When we put the Sainsbury's name on a product, we have to be confident that we done on customers' behalf all the things that they truly expect us to do. That is the piece that motivates large companies to act in this arena. Fundamentally, it is part of your brand, what you are and how you present yourself to customers. Yes, I think it is important.

Q1164 Baroness Doocey: Giles, could you deal with the question of whether you support legislation on supply chains? Have you ever discussed it with Government Departments?

Giles Bolton: We discussed it, by way of example, with the Government when they were looking at the remit of the GLA and changes to it. We were concerned about some of those changes, so we lobbied Ministers directly on retaining universal checking by the GLA of labour brokers. In other countries, we have done similar things. We have lobbied the Bangladesh Government to increase minimum wages. Last month, I was in Ethiopia, which has a very exciting potentially emerging garment sector. We are just at the beginning of sourcing from there, but I was there running a workshop with the Ministry of Industry and the Ministry of Labour on what it will take to develop an ethical garment industry that will be the kind that we and our customers will want to source from. We engage in that kind of dialogue with Government around the world, not just in the UK.

To answer your question on big companies' responsibility to drive change, I think there is a responsibility there. Our primary responsibility is to customers. What is interesting about a lot of these issues is that where there are entrenched challenges in supply chains they are very difficult for individual suppliers—or sometimes, individual retailers—to address themselves. With the scale and the resources we have, we feel we have a leadership responsibility to identify those things where collective action can be valuable and to help to drive that. Examples would be the accord in Bangladesh—we were the first UK retailer to sign up to that—or the garment sector in southern India, where there is local bonded labour practice called sumangali. That involves women workers going into factories and working for three years until they receive a lump sum at the end, which means that they are inclined not to move even if there is abuse. We want to address that throughout the garment sector there, not just at the first-tier level but into spinning mills. Working with others, we have realised that you need a collective industry approach to that. We were the first retailer to fund the ETI to drive that programme. That is how we take on that leadership responsibility.

Q1165 Baroness Doocey: That is very helpful. However, I am still not clear about whether or not you would support supply chain reporting in legislation. Could you all briefly say yes or no?

Chairman: Centring on the change to the Companies Act that we have discussed with Paul—is that something that Sainsbury's and Tesco's would welcome?

Giles Bolton: My view is similar to what Judith said before. I am very comfortable with the California Act, for example, or with additions to the Companies Act. It depends on the detail of that. I am comfortable with creating reporting that is not burdensome and builds on what we already do.

Q1166 Chairman: Judith, the truth is that you could sign up to the California Act now, couldn't you? It would make no difference, would it?

Judith Batchelar: Yes. There is only one thing I am not quite sure of—hence my hesitancy. It is not because I am hesitant but because I am not quite clear about the degree of transparency that would be required in that disclosure. While we are very happy to disclose things that are in everybody's interest, there are certain things that are commercially sensitive, so disclosing the absolute detail of your particular value chain would be anti-competitive. That is the reason for my hesitancy.

Q1167 Chairman: I would think that in the first instance you would do six bullet points in your company report on how you have improved on last year's performance.

Judith Batchelar: We do that already, so it would not be burdensome.

Chairman: Then shareholders and customers can judge how you are improving matters.

Q1168 Fiona Mactaggart: I imagine that some of your companies are signed up to some of these voluntary agreements. Could you tell us whether you are? If so, what action have you taken as a result of being party to one of the voluntary agreements about slavery in supply chains?

Judith Batchelar: The "Stronger Together" programme is a voluntary agreement with a number of parties, including trade associations such as the British Retail Consortium and the Food and Drink Federation and industry supporters such as the Fresh Produce Consortium—so everybody working together. That is still in its early days, but the commitment to training, upskilling and giving all members in the value chain the expertise to look for the clues around modern-day slavery is very impressive. You can go on to the website and download all of the materials that you would need to train everyone within an organisation. We are all committed to doing that. It is a great example of industry working together. By the end of this year, we will have trained all of our suppliers in that programme—and it will make a material difference.

Q1169 Fiona Mactaggart: As a result of that training, is there anything that has happened that you could describe to us? Do you see what I mean—could you tell me a story?

Judith Batchelar: Not on "Stronger Together," but there are probably half a dozen on our relationship with the Gangmasters Licensing Authority. I should probably put this in writing, because some of them are still in process and people may therefore be prosecuted. Because of the intelligence that we have been able to share through the Gangmasters Licensing Authority—and, indeed, its sharing of intelligence with us—and our carrying out combined audits, where my technical team and Gangmasters Licensing Authority enforcement officers visit together, in the last year we have uncovered half a dozen issues of modern-day slavery, trafficking and all the things that we would class as slavery in the UK. It is working.

Paul Lister: I would give another example in a related area. The inquiry led by the Equality and Human Rights Commission a couple of years ago into conditions in the meat and poultry processing sector led to some voluntary agreements on common indicators for major players to use in the sector. In Tesco, we complemented those with training specifically for our own suppliers around them; I am sure others did as well. In that case, for us it was about making explicit agreements with our suppliers in those areas about how they would manage temporary and migrant labour. The EHRC then went back and found evidence of improved conditions in the sector. There is further to go, but it suggests that those voluntary efforts have made a tangible impact on the conditions of workers—not explicitly with regard to modern slavery, but with regard to decent management and good conditions in general.

Q1170 Fiona Mactaggart: I am very interested in the fact that the examples that both of you have used have cited a regulator working as your partner, rather than something completely voluntary within the sector. Have you found those regulators helpful? The normal message we get from business is, "Woo, regulators—we don't like them," but you are talking about partnering with the EHRC and the Gangmasters Licensing Authority.

Paul Lister: My example was not going to be a regulator. I was going to be more general and to talk about the ETI—the Ethical Trading Initiative, which is a voluntary organisation—what we have learned from that and how we have developed our basic ethical trading as a result of membership of that organisation. We joined in 2005 or 2006 and have been on quite a quick journey as a result of that, learning from other people.

Q1171 Chairman: Could I put Fiona's question to Giles and Judith in another way? Given that your work with the Gangmasters Licensing Authority is so positive, how would you react if the Government asked you for a contribution towards the cost?

Giles Bolton: I am happy to take that first. I am cautious about the precedent of retailers paying for something that is about establishing compliance with the law in this country. The GLA's activities are about ensuring compliance with the law. That is the reason for caution, but we are very strongly supportive of the GLA and would be comfortable if it were extended to cover other sectors.

Judith Batchelar: It is interesting because at the moment we are looking at a project with the GLA that goes beyond what Giles has just described. I agree that it is not a job for us to fund the enforcement of law, but we do other things with the GLA. It provides insight and expertise to our business, helping to train my colleagues to ensure that they have some of the skills and knowledge to do the job that they now have to do. Ten years ago, they did not have to check these things; all they checked was food safety and quality and health and safety, whereas now they have a whole new piece of legislation to think about. That is very different from an enforcing role for the GLA. I imagine there are some things where it acts almost as a consultant and that you might be willing to pay for that knowledge, expertise, training and guidance, but not to enforce the law.

Q1172 Baroness Butler-Sloss: I would like to dig down a bit through the supply chain and to ask you in turn about what your company does. I will start with Sainsbury's. On the second page of your very helpful note on ethical trading, you talk about your "indirect supply base (second, third, fourth tier suppliers … etc)" and say that they "are monitored via our suppliers and agents." How does Sainsbury's at the top take responsibility for ensuring there is no modern slavery right at the bottom of the chain?

Judith Batchelar: We have in place all of the checks and balances, so obviously there is a very strong auditing programme. That auditing programme is for our direct suppliers but, as part of those checks and balances, we ask in turn what they are doing with their second and third-tier suppliers. When they sign our terms and conditions, they sign up to our ethical code of conduct and make a commitment to do that on Sainsbury's behalf for the parts of the supply chain that they own. That is the first thing.

Of course, audits are only one moment in time—one day of the year or, perhaps, one day every two years, depending on the frequency of the audit. On top of that, we do unannounced audits and unannounced visits. We also do what we call supply chain mapping. For all of our supply chains, we identify all of the members of the value chain and understand where the risks are. If, through that risk assessment, we felt that there are second and third-tier suppliers who are at risk, we would look at that in more detail. An example of that is the work that we are doing with the International Labour Organisation on fishermen in Thailand. Because we have identified that as a risk, we have a project in place, our team operates out there and our sourcing office in the far east takes on the ongoing management of the project.

Q1173 Baroness Butler-Sloss: Could I ask about Tesco now? At the bottom of the first page of your equally helpful note, you talk about your global monitoring programme, which you say "includes all our first-tier direct suppliers". You have a very long and, I would suspect, complex chain of suppliers to Tesco. If I may put it perhaps a little unkindly, are you just ensuring a veneer of ethical conduct, or are you monitoring it to see what is going on right at the bottom?

Giles Bolton: We are monitoring it. I will try to give you some different insight from that you have heard from Judith. Audits are an important part of our checks and are to our first-tier supply chain; we are going below first tier in some areas where we are aware of particular challenges. However, our greatest tool in managing and identifying risk and ensuring it is addressed, where we find it, is our work to ensure we have suppliers we know and trust. One advantage that we have as a large company is an ability to go directly to source and to be present in sourcing offices around all our major production countries around the world. We have sourcing hubs in about 30 countries. That means that we are able increasingly to avoid going through an agent—let us say by buying from someone in the UK who then sources the products themselves—and to have a direct relationship with the producer of the product at source. For example, we source bananas from a very limited number of sites. Increasingly, they are producing exclusively for Tesco, so we can have very detailed agreements with our suppliers on the working conditions in those places.

What it also means is that experts from my team are part of those hubs. There are 45 full-time ethical trade specialists in our business, most of whom are dotted around the sourcing hubs. Their job is to do precisely the kind of thing Judith referred to in Thailand—not just to identify risks in the first tier and to support our suppliers there, but to look at where there are particular challenges below and either to work directly with those supply chain operators or to help drive industry-wide programmes to address those risks. That is our greatest protection against these issues.

Q1174 Baroness Butler-Sloss: I move to Associated British Foods. Does ABF take responsibility for its entire supply chain? If so, how does it do it?

Paul Lister: It very much depends on which division is involved. ABF has four divisions. We have our sugar division, grocery, ingredients and Primark. I will start with Primark. Primark absolutely takes responsibility. In a similar way to my colleagues here, we start on the basis of an audit of the first tier. Last year, we did over 2,000 audits of our first-tier supply chain. We then look to see what the issues are, in a similar way to the mapping that has been described. If we believe there are issues lower down the supply chain—in dye houses or wash houses—we will also audit those; we call those our tier 2. We will continue down through the process in order to get assurance.

The sugar business sources direct from farm in the UK. In Africa, 60% of our sugar is sourced from our own estates, the other 40% from outgrowers. We have a rigorous process of checking in relation to outgrowers; it usually relates to cane cutting and the like. There is a similar sort of process in China, but we do not own any of the land there. In grocery, there is a similar process, depending on what the issue is. Twinings does a similar sort of process to Primark; it goes all the way back to the tea plantation and takes it through to the factory. In ingredients—I could go on, but I am not sure how far you want me to go.

Q1175 Baroness Butler-Sloss: Could I pick you up in relation to Primark, which you took first? You said you looked at the first and second tiers and, if you had any concerns, you would look below. Do you do any monitoring, without concerns, right down to the bottom?

Paul Lister: Yes. We are concerned pretty much about everything. We are naturally paranoid, which means that we take it as far as we possibly can to see what is happening throughout the supply chain. That is a process that is ongoing. We started with tier 1, which is the factories that supply us. Subsequently we moved into tier 2. If we have issues now, we will look at them, but we will continue to develop that process.

Q1176 Baroness Butler-Sloss: One problem is that you may be told by, say, tier 3 that all is well, but you have several tiers below that. It is quite easy to accept what somebody tells you. How far in Primark are you challenging your tiers to see that you are really getting the right information?

Paul Lister: They are all bound, initially, by our terms of trade. We will then look at their terms of trade to ensure that they have the right to continue to go through the tiers. At some stage, you hit a problem, because you start to buy commodities. If you are buying commodities on an exchange and they start to get mingled with one another, it is very difficult to know quite where those commodities are coming from, so at some stage you do hit an issue.

Q1177 Fiona Bruce: Good morning. What has been the impact on your thinking of certain problematic instances such as the factory disaster with the clothing manufacturer—for yourselves, Paul—and the horsemeat scare? How have you addressed issues as a result of those events? What was the reaction within your companies?

Paul Lister: We heard of the disaster at Rana Plaza pretty much on the morning that it came down. We have a team of people in Bangladesh, who are our ethical auditors there. They notified us of Rana Plaza. We knew we were in Rana Plaza because we had audited New Wave Bottoms, which was on the second floor. We knew where our clothes were made, which enabled us to say on day 1 that we were in Rana Plaza.

We accepted responsibility for the work force in Rana Plaza very quickly after that. We were then driven by what was the right thing to do in relation to that disaster. Within a week, we could see that just buying food was problematic. We therefore provided 1,300 families with food aid within the first two weeks, because that was their initial concern. We then found that wages were not being paid. As the building had come down, factory owners were not paying wages. The Bangladeshi Garment Manufacturers and Exporters Association also was not paying wages, so we took it upon ourselves. Ultimately we paid nine months' wages to everyone in the building—to 3,600 people. Our supplier had 580 people, but we thought we could not distinguish between people within the building. That is why we did the registration events. We were guided by what was the right thing to do in relation to that disaster.

Q1178 Fiona Bruce: But that is after the event, in a sense. What was the reaction of your board in terms of the adequacy of your checks?

Paul Lister: We had been into New Wave Bottoms, which was one factory on the second floor of the eight-storey building, and had seen it a couple of times in the previous year. What we had looked at was the internal part of the building, but we had not looked at the structural integrity of Rana Plaza itself—no one was looking at that. That is where the accord has come in. We have done our own work as well, even leading up to the accord. The lesson learned is that structural integrity needs to be looked at. However large the building—Rana Plaza was a really large building—it needs to be looked at very carefully.

Q1179 Chairman: Fiona is asking you a more difficult question. Your board meets and you report to it saying, "It is all hunky-dory. We are checking supply chains and all the rest of it." Then you get this nuclear explosion at a place you had been receiving goods from. When your board got off the floor after receiving this report, what did it say? What does it tell us about our company that we have been trading in these conditions?

Paul Lister: The board was completely shocked. We were absolutely horrified by the event.

Q1180 Chairman: Didn't it say, "How can we rely on any of the information you supply us with?"

Paul Lister: The information related to the inside of the building, not to the structural integrity of the building. We were not able to do a structural integrity survey in relation to Rana Plaza. It was an eight-storey building with multiple occupancies. We had not seen the structural integrity of a building as a risk we were looking at. I do not think other retailers had seen that either.

Q1181 Chairman: Did the board say to you, "If we have another example like this, your job's on the line"?

Paul Lister: The board did not need to say that to me. What we then did was say, "Having learned from Rana Plaza, what can we do to ensure that Rana Plaza does not happen again?" We immediately started structural integrity surveys of the other buildings in Bangladesh. Bangladesh has a particular issue because it is space constrained and it builds up. We immediately started using structural engineers to do structural integrity surveys of the high-risk buildings, which we saw at that stage to be the multi-tenanted, multi-storeyed buildings; that was even before the accord had started. To date, we have done structural integrity surveys for just under half of our supplier base.

The lesson learned was that you cannot take structural integrity for granted. We had seen all the certificates that said that the building was legitimately erected and legitimately operating, which shows that, frankly, even in relation to that we need to do our own work. That is the lesson that we have learned. We have said, "Okay, we will do our own work, even in relation to a building structure in the developing world where we have seen high risk."

Q1182 Chairman: Giles, what was the effect of the horsemeat scare on the Tesco board?

Giles Bolton: Many more esteemed colleagues than I in Tesco are on the record as saying that it was a fundamental crisis in terms of customer trust. It caused us to look very fundamentally at the way we manage supply chains. Part of the answer is about policing, checks and the best science. We now have the biggest testing programme for food products and provenance, with DNA and isotope testing. At least as important as that is making sure we have the right relationships, now and in future, with suppliers in our supply chain: direct relationships with those places our food comes from; long-term partnerships, with a minimum of two-year contracts for all suppliers who want them; and much stronger investment in producer groups such as the Tesco dairy group. The majority of our milk comes from the dairy group. We are now extending that to all the major protein groups, so that you have close, long-term partnerships with people you know and trust. That is our greatest protection against poor activity.

Q1183 Chairman: Judith, for me, probably the worst piece of evidence we have had is of Burmese young people moving down the coast and getting jobs as fishermen. The charity that rescues them from slavery reports that 60% of them have detailed examples where a fellow Burmese who has raised questions has just been shot and thrown over the side of the ship, for the seas to devour. They are largely prawn fishermen. What moves have you made so that when we buy prawns from Sainsbury's we are not party to those sorts of murders?

Judith Batchelar: Again, that is criminal activity. We can never guarantee that there will not be criminal activity; all we can do is make sure we are the toughest target. There are all of the things that I have described around supply chain mapping, to make sure, as Giles would say, that supply chains are as short as possible, that you know the people involved in them and that you have long-term relationships. All of those things help to mitigate that, but they will not ever stop it.

The bit that comes in there is the intelligence piece. If you take horsemeat as an example, we have all been doing DNA and isotope testing. We spend millions—and I mean millions—a year on testing products, but we were not looking for horsemeat, so people did not find it. Fortunately, we were not implicated in that, but it was an industry issue, so we were. We have to work collaboratively on that. For me, the missing piece is intelligence. We have a whistleblower line, which is on our website. All of our technologists who travel abroad remind suppliers, whoever they may be, in the supply chain that we have that "right line" number for them to ring or to contact, should they feel that something not quite right is happening in the value chain, but we rely on people telling us that. I agree that some people are too scared to do it.

Q1184 Chairman: It is really the business of trading in different cultures. It is one thing to have something on your website for the whistleblower to blow, but that is not much help to a young Burmese lad who is just going to be shot and thrown overboard, is it? To what extent does your board get its hands dirty trying to satisfy itself that Sainsbury's is not involved in this murderous trade?

Judith Batchelar: We do everything that it is possible to do—all the things that I have explained. In addition to that, we have 17 international projects that are associated in some way with worker welfare—whether it be labour rights or health and safety—including projects in Bangladesh and a large number of fishing projects around the Indian ocean, because we know that there are issues there; earlier I talked about the Thai example. Those projects touch about 500,000 workers in our supply chain directly, but we probably have 2.5 million workers in our supply chain globally. We therefore have to risk-assess where we intervene. We have a very thorough risk assessment process, which is run by our internal audit team and reports to the board. They would be part of that risk assessment process in terms of prioritising where we put our resources to have the greatest impact.

Q1185 Chairman: With the board's permission, could you give us board papers in which it received reports of this nature on the supply chains? That would really help us to understand the sort of material the board gets—how close it is to things.

Judith Batchelar: Yes.

Q1186 Lord Warner: This question is pitched at Judith but is also for others. Paul has mentioned from time to time how paranoid you are. Judith has told us about how she is approaching this from the point of view of their exposure to criminal activity. There must come a point in some of these areas where you come to the conclusion that criminal activity is endemic in a particular geographical area. Does your board get to the point where it is willing to say, "This kind of activity is endemic in this area. We are simply not going to source products from there—and we are going to tell our customers why"? If your systems are so sound, it seems to me that you ought to get to that point at some stage.

Giles Bolton: We have a firm business commitment: we will not source from suppliers where we know there to be serious violations. Our preference is to work with suppliers where it is possible to make improvement, not least because it benefits the workers in that situation, but where there are fundamental issues, we will not source from them.

If it is helpful, I can give a bit more flavour of some of the complexity—how deep some of these issues go in the supply chain and how we address them. Wherever we are aware of an issue, we will address it. About four years ago, there was a *Sunday Times* exposé to do with a mineral called mica, which is a small, shiny component that goes into eye make-up. It was linked to Tesco and Asda and to cosmetics in our chain, but it could have been in any number of people's cosmetic supply chains. We worked to understand the issue. The mica was being mined about eight tiers down our supply chain. When we mapped it, we discovered that the bottleneck was around three or four German-owned mineral companies, which controlled most of the trade. The machinery to process mica had improved, so having traditionally been mined by adults, it was now being collected from old slagheaps by poor families, including children.

We were able to address that by working with those German companies to get clear plans from them on how they would collect mica without children being involved and then prescribing that our suppliers could source mica only from those specified companies. Where we become aware of these issues, we will always address them. Our best ability to get to the bottom of those issues comes back to direct relationships—having experts on the ground who will identify them—but we will not source from people where we find serious issues.

Q1187 Chairman: Judith, do you ever envisage the day when Sainsbury's has a notice in its fish section, where it has prawns, saying, "We can't supply customers with prawns because we cannot satisfy ourselves that they are free of slavery"?

Judith Batchelar: It is interesting that you should pick prawns, because it is the one area where we are doing quite a lot of work.

Q1188 Chairman: It is just that we have had some very good evidence on it.

Judith Batchelar: It is public knowledge that we are just about to launch a sustainability standard that looks at sustainability from an environmental, social, ethical and economic point of view. The first area where we are going to launch that certificated supply chain is prawns, because it is the one supply chain that everyone, including Fairtrade, has avoided because it is so complicated. That is where we have started.

Q1189 Chairman: So it can go back on the menu. Paul?

Paul Lister: I was going to answer in terms of the geographic area. Sometimes, you look at a geographic area and say, "This is just an extremely difficult country." The point to bear in mind is that you have a lot of people who are dependent on the work in your supply chain. In the factories that are working on Primark clothes, there will be thousands of people in, say, Bangladesh who are dependent on our supply chain. It would be wrong for us simply to say, "Bangladesh is just too difficult." What we have to do is work on a factory-by-factory basis, find out and correct the issues and then take a view on whether we can continue to work there, depending on whether or not the factory owner is willing to correct the issues. In a geographic area where people are so dependent on some of our orders, it would be wrong to say, "This is just too tough." You have to go into the subset of factory by factory, as opposed to country by country.

Q1190 Chairman: The easy option would be just to wash your hands and walk away, wouldn't it?

Paul Lister: Yes—and some people did. After Rana Plaza, some people said that they simply would not source out of Bangladesh. After 9/11, people stopped sourcing out of Bangladesh. It can be very problematic, not for the country but for the people in the factories, who suddenly find there is no alternative to the work they have been doing. We should see the factory and correct the issue, but it is too much to say at the country level, "We are just going to wash our hands of Bangladesh."

Q1191 Lord McColl of Dulwich: Paul, did you know how old this eight-storey building was? Do you now inspect similar buildings?

Paul Lister: We did. Rana Plaza was not an old building. We saw the licences in relation to the building, because those enabled the factory to operate. So far, we have looked at the high-priority buildings. We have done structural surveys of all the high-priority buildings, which represent 40 of the 88 factories we source from in Bangladesh. Age is not necessarily an issue in Bangladesh—it is the pace of expansion that has led to corners being cut, unfortunately. The modern buildings could have just as many issues as some of the older ones. It is the speed with which the garment trade has taken off in Bangladesh that has led to corners being cut. That is the unfortunate bit.

Q1192 Fiona Bruce: A number of times you have referred to larger companies. Giles, you said that you have 45 full-time ethical trade specialists. In a sense, I am asking the wrong people, but to what extent can smaller companies satisfy themselves of the absence of modern-day slavery in their supply chains? How reasonable do you think it is for them to be expected to do so?

Judith Batchelar: There are certainly collaborative things that they can do. For example, Sedex—the Supplier Ethical Data Exchange—shares information on the basis that whoever is supplying you signs up to that and gives you permission to look at those data. It does not matter whether you are a small company or a large company—if you and your suppliers sign up to it, you can see that value chain and have access to that information. Basically, what that does is risk-assess for you the risk within that value chain. It does it in two ways. One is based on the information in the audit that Sedex will have recorded. Sedex will also look at things that it calls inherent risks, which might be risks around geography, sector or various other things, and give those as high, medium or low. You do not have to be a big organisation to take part in that exchange of data. There are lots of things like that to give small organisations a good indicator, without having vast teams of people to look at data, to carry out audits and so on. It is possible.

Q1193 Fiona Bruce: So there are ways in which the small high-street retailer, owned by a family, can look at this issue and provide some assurance to their customers.

Giles Bolton: To be honest, I genuinely think it is harder. I agree with what Judith has said. However big you are, there is no substitute for knowing your suppliers as well as you can and having as small a supply base as is commercially practical—you rationalise and focus. If you are really small, you may be buying through an agent. If I were sourcing from Bangladesh, I would want to know that that agent was very active and was a member of the accord, so that I was getting my protection in that way if I did not have the resource to build those relationships myself.

Paul Lister: That is the key. Some of the smaller retailers will not be sourcing directly from Bangladesh—they will be going through an agent in London, who is going through an agent in Hong Kong, who is going through an agent in Bangladesh, where the factory is producing. That is the risk. There is more risk when you do not know where your clothes are being produced. The burden, if there is going to be a burden, is not on the smaller retailer, who is simply buying from an agent in London, but could be on the importer, who will have more size and be the appropriate size to know which factories are ultimately producing the goods. You often see smaller retailers in, frankly, worse conditions. That is not because they do not care—it is just because of their traceability. They are going through different agents, each of whom has a role, but ultimately the factory may not be compliant with any sort of base code. The importer will have an aggregated mass that will enable someone to take responsibility.

Q1194 Mrs Spelman: We will give you a bit of a grilling on this, because this is what matters. We do not want to pass a law that is just a piece of tick-box legislation. All three of your companies have suffered damage to reputation through some aspect of modern-day slavery turning up in the supply chain. I want to dig a bit more into the ethical auditing process. Paul, you mentioned specifically that you had a team on the ground in Bangladesh, yet the factory collapsed and 1,300 people died—not all, I understand, employed by you. Have you experienced the problem that some of your suppliers have confidentiality agreements with their auditors, which prevents the proper auditing process and your being made fully aware of just how much risk you are exposed to?

Paul Lister: Our audit process is based on our teams on the ground, so we do have a team. In fact, we have a similar number to Tesco—about 40 people in the developing world. We also use third parties. I test the auditors as well; I like to see who is checking the audits, so we have a team that checks them. The key for me is to get transparency. I have not come across confidentiality arrangements with my teams or third parties. I would not accept that, as I need to know what the issues are. The key to a good ethics policy is to be prepared to look. If you are sourcing out of the developing world, you should know that there will be issues. You must find the issues, put them right and work with the factories to do that. That is the absolute key.

Without transparency—with confidentiality agreements around—it would not work. We have to work hard to find the issues. Sometimes, the factory owners can be quite tricky; we have all seen examples on the telly. It is not as easy as it appears—you cannot just turn up. Our auditors have to be trained. We do unannounced audits, announced audits in a window and announced audits. We have a dialogue with the factories—we need to know where our clothes are made. It is all about transparency. We could not live with confidentiality agreements.

Q1195 Mrs Spelman: Both of you shook your heads at that as well.

Judith Batchelar: I have never come across them. Again, we would not tolerate that. There is no point in having these processes in place if they are not as transparent as they can possibly be.

Giles Bolton: There is a challenge. It is not directly in terms of confidentiality agreements, as far as I am aware, but if you take parts of Asia, it is obviously desirable for the overall burden on the businesses we work with—where collectively as companies we source from the same suppliers—that they answer the same set of questions and assessments only once. However, in countries where long working hours are endemic—for example, in a lot of China—some audit firms are quite unsuccessful at getting to the truth about real working hours. A factory owner will think that the customer wants to hear that it is all right, so they will give you a false set of records.

What we sometimes hear from those factory owners is that they might be more honest with us but they are nervous about telling the audit firm, because the audit firm might then make those results available to another customer. When you dig into these issues, you have to look at each environment and what response you need to get accurate reporting of the conditions. Because of this particular problem, in China and in Bangladesh, we are moving to bring all our audits in-house so that we can have that direct dialogue and be more confident that we are getting real transparency about working hours and, related to that, the wages people are paying. It can be complex.

Q1196 Mrs Spelman: That is a clear lesson learned. There is one other aspect I want to touch on. Just for illustrative purposes, let us use the Rana Plaza example. I was there a couple of weeks ago. Twenty-nine companies were in the same building. To be fair to Primark, it is one of the only companies that have compensated the work force—very few of the rest have. What about data and information sharing between companies sharing the same factory base, which often happens in these locations? It strikes me as very depressing that 29 companies, mostly in the western world, did not have alarm bells ringing about their shared use of a building like that.

Paul Lister: It is an interesting question. Some companies from Rana Plaza still have not come forward to say that they were there. There is the amazing debate, which continues, as to who was in Rana Plaza when it came down and who used Rana Plaza before it came down. That ongoing debate is massively frustrating for compensation purposes, but it goes back to the fact that not everybody may know that they were there. You go back to this complex supply chain. If it is a smaller retailer whose labels have been found, will it know it was there because it placed the order in Rana Plaza, or will it have gone through multiple levels of agents and ended up in one of the many factories in Rana Plaza? Rana Plaza was a factory complex. There were several factories in Rana Plaza, on each of its different floors. The problem is information sharing. There are certain people who were there. We then have people saying they were in and then out—they were just doing samples, but they were not doing samples. There is a whole lot of debate going on about Rana Plaza, which is an illustration of some of the complexities of such a factory complex.

Q1197 Chairman: Paul, when you first started trading from the site, were all the other storeys in place over the factory you were using, or did it come as a surprise to you that the building regulations are such that buildings can grow after you have taken floors in them? Was it a complete building when you did your first check, or are you up against the wild west, so to speak?

Paul Lister: I would have to check, but I do not think it was being built when we first went into Rana Plaza. I think there was a proposal to add another floor to it, even after the eight floors, but it was not under construction when we went in there.

Judith Batchelar: One of the challenges around sharing intelligence and pooling those resources is that some companies do a lot of testing and auditing and take that financial and resource burden into their company accounts. There are others that do not. It is always difficult when you are trying to share something from an intelligence point of view to ensure that that sharing of data is equitable. We have had this conversation around what happens after horsemeat in terms of data sharing and intelligence. I know that the Food Standards Agency is struggling with how to make that a reality, but that should not stop us trying to find a way to make the very best use of all of the information that we have. Whether that is about modern slavery, food safety or authenticity of product, it is the same challenge. If we can find a result on that, there are lots of benefits.

Q1198 Mrs Spelman: Aren't you making the case for mandatory reporting of transparency in the supply chain? If we aspire to a slave-free logo on food and clothes, it has to be meaningful. The only way to make it meaningful is to make sure that everybody is doing the kind of diligence that the best put in place.

Giles Bolton: We would absolutely do that, if and when we found a serious issue. If I think of things in the last 12 months, we did find a very serious structural concern at a factory, through checks we were doing. Because that was a serious structural concern, we needed to tell everybody, regardless of what specific rules say—and most importantly, to get word to the workers in that place, because the factory management disagreed with the findings and declined to make the building safe. We told global unions, local unions, the Government authorities, bodies such as the ETI and every other customer of that factory we were aware of. We would not ever be in a situation of understanding there was a serious risk or serious poor practice and not tell other people about it.

Mrs Spelman: That is exactly what the Government of Bangladesh said in the aftermath that they need you to do, because it is a two-way process.

Chairman: We are way over time, largely because I keep intervening, so I will now shut up. Dee wants to come in.

Q1199 Baroness Doocey: You all have local teams on the ground. Are they locals or Europeans?

Judith Batchelar: A mixture.

Paul Lister: Ours are local.

Giles Bolton: All my locally based ethical trade team are local to those countries—Thailand, Bangladesh, Costa Rica or wherever.

Q1200 Baroness Doocey: The reason I ask is that I have experience of working in China, where I found that the local teams did not view things with the same eyes as I would have. They thought that certain practices were perfectly okay that to us would have been completely wrong. I wondered how you dealt with that, because a lot of the time I found it to be a major problem, and whether you had had similar problems.

Paul Lister: That is why I have a team that checks the audits as well. We have a standardised approach to it for Primark, but we also need to make sure that we are fitting that standardised approach. We therefore test the audits to make sure that we are spotting the issues and that the issues are right.

Q1201 Baroness Doocey: With different people?

Paul Lister: Absolutely—with completely different people.

Giles Bolton: The selection and training of your people is very important. It is actually very important that you use local people. When you are trying to get to the bottom of conditions, it is important to be able to have relationships with local NGOs and to interview workers in confidentiality, which obviously requires the language and cultural sensitivity. We have to make sure that we choose the right people. It is really important that they are local.

Q1202 Lord Warner: We have had a pretty good go over who in your companies has overall responsibility for preventing slavery and the extent to which they sit on the board. I want to ask you a couple of related questions. One of them follows on from something the Chairman asked. Can you give us some sense of how frequently over the past two years your boards have discussed modern slavery and exploitation issues? What are the orders of magnitude?

Chairman: Pre- and post-horsemeat.

Giles Bolton: I can speak for Tesco only to the ethical trading agenda, rather than to the broader food safety example. For ethical trading, on an annual basis, there is a detailed formal report where I take a review to the business and the senior executive there and am quizzed about it. Wherever there are particular concerns, those are discussed at board level. Crucially, our senior colleagues are frequently in the supply base. For example, this week the head of the commercial supply chain for Tesco is in South Africa visiting suppliers, seeing those issues and hearing reports from my team on the ground. That day-to-day dialogue is frequent. We also have the results of our key performance indicators, one of which is that wherever we find any concerns they have to be addressed within a fixed period. We track that and report it to senior management on a monthly basis, so they are keeping a regular check on progress.

Judith Batchelar: We would be the same on that. According to our key performance indicators, we report monthly to Mike Coupe, who is our plc board director, responsible for sourcing with integrity. Any adverse reports, which we call red rated, are singled out in that report, so they would get all of that information. Depending on the severity of that, it would be escalated across the entire operating board.

Paul Lister: I give a formal presentation to the plc board once a year on the issues and what we have found and then periodically, at every board meeting, depending on what the issue is. Post-Rana Plaza, there was obviously quite a lot of updating. Depending on what the issue is, I will update the full plc board at almost every meeting.

Q1203 Lord Warner: Can I give you an alternative viewpoint that has been put to us? It came from Andrew Forrest, an Australian businessman, who established Walk Free. I want to use the quote he gave: "I would not excuse the chairman; I would say it is the chairman and a nominated non-executive director who carry specific responsibility." He meant responsibility for slavery-type issues. This may be a career-limiting question, but how do you think your board would react to going down the Forrest route?

Paul Lister: This is one element of risk. We looked at risk on the board and whether it should be in the audit committee or at the full board. We determined very early on that risk—this one element—should be at the full board, which consists of eight members, two executive and the rest non-executive. The board decided that it would take collective responsibility for all risk within ABF. That is where we landed, having considered it.

Judith Batchelar: Our board would already think that it took that responsibility, so I do not think it would be—

Q1204 Lord Warner: He is saying that it should be the chairman and a named person. He is not saying that it should be the collectivity but that it should be an individual responsibility.

Judith Batchelar: On our plc board, we have a group executive director, Mike Coupe, and a non-executive director, Jean Tomlin, who take responsibility for that.

Giles Bolton: What I see matters most is that these issues are a direct accountability for commercial teams throughout our business. That is more important than anything else. My team and I are part of Tesco's commercial operation, not part of its corporate affairs function. We report through the chain to the chief executive, who has a direct accountability. Success is judged and people's bonuses are paid on the key performance indicators. That accountability is direct in the executive chain.

Q1205 Baroness Hanham: We have given this a very good run-around. I am not quite sure how much more I can dig out of you on this, but I want to look at taking proactive rather than retrospective action. If you do a deep dive into any of your particular supply chains, do you find anything? We have been talking about food, clothing and insecure buildings, but there are terrible practices as far as people as concerned and probably other areas that we have not covered where you may have uncovered something. If you do that, what do you do? Do you cut off the trade at the bottom end or wherever the problem is? How do you dig this out and stop it happening again?

I see the point that you are a main employer for a number of places such as Bangladesh, but at some stage—you would do it here—you have to say, "No, this is completely unacceptable." First, what do you do with that? Secondly, do you do deep dives? Thirdly, if you have done them, have you found anything more than what we have been talking about that would come under the modern slavery heading?

Paul Lister: Can I hit the point about cutting off first? Cutting off is an extremely serious issue. All of this is about worker rights—all of it relates to what is happening to the worker in the supply chain. We would work extremely hard with the factory and the factory owners concerned to try to alleviate any of the issues that we might find.

Q1206 Baroness Hanham: That might be children working or long hours.

Paul Lister: It could be long hours or fire escape. You could need an alteration to a building to put in another fire escape. You could need an evacuation area for fire. It could be structural alterations or documentation, which is also really important. A lot of the issues we find we cannot verify because we do not have documentation, so we insist on documentation being put in place. The key element is trust, which you get with longer-term suppliers. There can be times when that trust just breaks down and is irreparably damaged. They are very infrequent, but at that stage it is incumbent on us to say, "You know what—enough's enough." We will do that from time to time, but it is very rare that you find someone simply will not work with you and you lose that trust. We give big orders, so we do have some influence.

The issues we have found with slavery are not with slavery per se but where you have migrant workers. There is a bigger risk with migrant workers than with any other sort of worker. You can see instances where passports or identification documents are withheld, which means that the migrant worker cannot go home. You can see annual payments, where they are paid only at the end of the year, which forces people to stay. If you find those sorts of things, you need to deal with them very quickly. You can deal with them, if you are looking at what sort of issues you have to deal with. When you get to the trust element, the factory will deal with it, but you keep on looking. This job is never done. You have to be constantly vigilant, and we will be constantly vigilant over time.

Q1207 Baroness Hanham: Do you go looking for that yourselves?

Paul Lister: Absolutely—it is key. Going back to the audit question, the auditors know what to look for. There is sometimes a game of cat and mouse, but we hope that the auditors are so good that we can find instances. The auditors know what to look for, know the tell-tale signs and have a good relationship with the factories. They are forever in the factories, even if they are not auditing. They could be dealing with a project in the factory or with the factory manager on productivity, health and safety or any other sort of issue, so there is a constant dialogue and constant looking. There is a constant doubt—a constant paranoia—to make sure that we are looking.

Q1208 Baroness Hanham: Would you move into criminal action? We have this big ethical heading at the moment, but it could move on from that. If you find any criminal activity, what do you do? Criminality covers all the things you have been talking about.

Paul Lister: Yes. If you could, you would report it to the authorities. In a lot of the jurisdictions you are dealing with, the authorities are not great. Often, you find that you just have to deal with these activities, which would be criminal, because the authorities are not willing to take them up. The reason we all have these teams of auditors and look so diligently is that although the laws are on the statute book in a lot of these countries they are not enforced—either through choice or through lack of resource. That puts more of the burden on us to enforce as well. To be fair, we look in the UK and do a similar sort of audit of factories here. We rather hope that the authorities have looked there as well, but sometimes we find issues that surprise us in the UK as well.

Q1209 Chairman: Judith and Giles, if you find problems and put a factory or unit into special measures, how regularly do you revisit to see that the things Paul was talking about are being eliminated?

Judith Batchelar: It would depend on the severity of the issue. Whatever issue was identified, which we would call a non-conformance, they would get a corrective action plan. Those are time measured, so they have deadlines.

Q1210 Chairman: So they would know.

Judith Batchelar: In that corrective action plan, it would be very clear when those things had to be done by. We would then go back, normally unannounced. We would normally do that unannounced follow-up ourselves, rather than through a third party, to ensure that everything was well understood.

Giles Bolton: It is a very similar process for Tesco. The only additional piece of information is that where we find a very serious issue we will, if necessary, stop business immediately until it is fixed, as you would hope and expect.

Q1211 Sir Andrew Stunell: We have had some evidence given to us that companies that tackle slavery “make more money.” Would you see that as a true statement? How does having this ethical auditing approach affect your businesses?

Giles Bolton: An ethical trade programme such as the one I run in Tesco has two pieces of value to the business. One is helping to de-risk our supply chain, protect our reputation and so on. The other is that assessing your suppliers for how they treat their work force, how they invest in their people, how they skill them up and the conditions in which they work is a very good proxy for identifying those suppliers that will be the best long-term partners—the ones who will be the most productive, who will innovate for you best and who will be growing businesses you want to build your trade with. In that sense, there is a double win from having a large ethical trade programme.

Judith Batchelar: We are structured slightly differently as a business. In my team, we look after ethical trade but also look after food safety, product safety, parts of health and safety and quality. All those measures tend to give you a collective clue around a supplier's capability. Those suppliers that are not looking after their work force, training their work force or providing their work force with a safe environment in which to work tend to be the ones that have safety issues, or quality issues in the finished product. Normally, they all go hand in hand, which is helpful for us from an insight point of view. We can use that intelligence to say, "Collectively this does not look great." It also says that there is a real value in getting the work force well trained, well rewarded and working in an environment where they feel safe and secure. The benefits are huge throughout the chain.

Paul Lister: I tend to agree. We could not fulfil our commercial ambitions if our supply chain was not functioning efficiently. It tends to be the case that if it is ethical it will function efficiently. Quality and ethics go hand in hand.

Q1212 Sir Andrew Stunell: Can I pursue that a little way? If your suppliers are bidding for your business and are subject to various ethical requirements that cost them money in terms of compliance, wages and all sorts of things, they will be giving you bids that are more highly priced than those that come from others.

Paul Lister: It is quite interesting. One of my favourite projects that we have done is something called the health enables returns project, of which we are part and parcel. That teaches women in our countries about basic female hygiene. The ask that we had of the factory owners was that they gave time off so that employees could be taught basic female hygiene. Where everybody gains is that the factory owner gave the time off, the women were taught and were more productive, there was less time off through ill health and productivity was gained. You get the virtuous circle of everybody gaining. The children of the women then gain and all the rest of it because you have taught this basic female hygiene. Some of the stuff is not just about raising cost—it feeds through, increases productivity and enables them to be as competitive as they would have been, but everybody gains along the way.

Q1213 Chairman: Given the risk, it is a price worth paying, isn't it?

Judith Batchelar: Absolutely. These things are so fundamental to how we operate as a business and to how our customers expect us to operate as a business that not to manage them to the best of your ability would be negligent.

Giles Bolton: I agree. I would put it even more strongly: there is an immediate cost to these operations, but there is a clear overall benefit in terms of being able to choose better long-term suppliers and avoiding reputational damage. I think it more than pays for itself.

Q1214 The Lord Bishop of Derby: You have talked about your own auditing processes, ethical standards and negotiations. What about other indices? I would like to ask you about the Global Slavery Index. Does that kind of index have any effect on you in terms of the countries you choose to work in or how might you work in a particular country, if there is that other evidence base about the prevalence of slavery?

Giles Bolton: My answer to that has two elements. Like Sainsbury's, we are a member of Sedex, the Supplier Ethical Data Exchange; I am actually a board member of Sedex. Sedex provides a tool with which to identify risk for a particular site. It is about the make-up of a work force—the gender balance and whether they are temporary or permanent—and the type of work, as well as the country and sector of operation. That Sedex tool is itself based on analysis by a firm called Maplecroft, which follows a range of indices, including on global slavery. That is built into the risk assessment tool that we and many other firms use for our programme.

The other bit I will refer back to briefly is that, if you are large enough and invest enough to have people on the ground who are experts, you are staying close to a detailed understanding of the risks in that particular country. There is no substitute for doing that.

Q1215 Sir Andrew Stunell: If both of your teams have people in Bangladesh, for instance—presumably other major British companies have them as well—doing this ethical auditing, is there any transfer of knowledge between the different sets of ethical auditors?

Paul Lister: I do not think there is a huge amount. The accord has been the first real attempt for people genuinely to share a particular issue. The shame is that ethics has always been seen almost as a competitive issue. We share our supply base with luxury brands and with other brands at our price point. People ask how we can sell a T-shirt at £2 or those sorts of questions. That does not lead to the sharing that you would want.

Giles Bolton: I have a slightly more benign view. Bangladesh is a challenging country to work in. Previously, there was something called the MFA Forum, of which Tesco was a co-chair, which was precisely to share information on these changes and to use the common convening power of some of the retailers to do things like lobby on wages. You have heard about "Stronger Together," which we do in the UK. There are ETI groups in China. I have mentioned collaborative projects that we are doing in southern India around sumangali. There is work with other retailers and the ILO in Thailand. There is a range of processes around the world. We are very strong supporters of trying to get those going.

Q1216 The Lord Bishop of Derby: Would it be fair to say that it is evidence of an increasing trend towards slave labour in the culture that your approach is still piecemeal—that is to say, "Here's our factory. We will do our checks"? Would you not be influenced by a macro picture that might ring alarm bells more widely or with your customers?

Judith Batchelar: The way that we choose where to source is influenced a lot by historical legacy. We have long-term relationships in countries, including China and the far east, that are important to us. That is very different from when you are choosing to source a new supplier. You tend to work with people to resolve issues, rather than to walk away from the problem. Unless there was something that was unacceptable—in which case you would terminate that contract and relationship, even if it was a long-term relationship—you would work hard with the people and supply chains that you have, because you have a history and legacy of working together. It is very different when you are talking about moving into a new area. So much of the information that is available today, whether it is indices or Sedex data, just was not available 10 or 15 years ago. In the light of that information, you would choose very differently when taking on a new supplier in an area of high risk, as opposed to working with an existing supplier. Avoiding the problem going forward is relatively easy. Dealing with some of these issues retrospectively is much more difficult.

Q1217 Baroness Kennedy of Cradley: Paul is testing and inspecting factories in Bangladesh, so obviously his factories will have been inspected. Have any of Sainsbury's or Tesco's factories been inspected? We have seen press reports today that a report has been issued. What actions do you propose to take from the reports and inspections that have been done?

Giles Bolton: Ahead of the accord, which started to get operational and to do checks only in the last couple of months, we at Tesco have conducted structural and fire safety checks. By the end of this month, we will have completed all of them. Wherever we find any issues of concern in those factories, we take action. Earlier, I referred to one factory where we found a fundamentally concerning thing. Through our actions, that building was ceased for use and is no longer occupied. We will work with that supplier to make sure that the building is made safe before it is taken on.

That is what we have done. We have shared all our reports with the accord so that it can use them itself. It has not yet decided whether it will accept other reports that were done before the accord came into operation at capacity or whether it wants to repeat some of the process. We are very confident in the methodology that was used in our own studies.

Judith Batchelar: We were not involved in the tragedy, as it happened, but it is an industry issue. We did exactly the same immediately afterwards. We have 50 supplying sites in Bangladesh, all of which have had a structural survey. Health and safety checks have also been done. We have done all of our sites, but we are part of the accord.

Q1218 Chairman: Paul, in respect of Alicia's question, are there sources of supply that you know you are sharing with other retailers, or are they always exclusive to you?

Paul Lister: We share over 98% of our sites with other retailers. Very seldom are we a single source.

Q1219 Chairman: That makes Joan's question about when you share intelligence even more important, doesn't it? You were not the only people involved in using for supplies the factory where there was that terrible collapse, were you? Do you ever find that you are withdrawing but other companies continue to trade with them? What do you do in those circumstances?

Paul Lister: We have found that that has been the case. There is no set standard for audit, so you audit against your own standard. Those people who are members of the ETI will audit against the ETI base code, but there are different standards of audit. We have found circumstances in which we have left factories where other people remain. We have also found that others have left factories where we have remained—you do get that.

Q1220 Baroness Kennedy of Cradley: Has the structural integrity testing that has become part of your audit in Bangladesh post-Rana Plaza now been rolled out to factories in other countries in the developing world?

Paul Lister: Not yet, but we will roll it out.

Giles Bolton: We are conducting risk assessments of other high-priority countries. So far, we have looked at Thailand and Cambodia. What I mean by a risk assessment is that we have sent in fire safety and structural safety experts to look at a proportion of the supply base and to understand the risk. In those two countries, we have not found the standard of building to be as concerning as it is in Bangladesh. We are strengthening our standard audit protocol, rather than going through entirely separate fundamental structural surveys, as we have decided to do in Bangladesh—even though, like Sainsbury's, we were not sourcing from Rana Plaza.

Q1221 Chairman: Judith, do you have any last comments?

Judith Batchelar: I go back to the point that you are only as good as the information that you have. All the things we have tried to illustrate show that we go to great lengths to get the best-quality information that we can. On top of that, we try to ensure that the people that we employ, whether they are third-party auditors or our own auditing teams, are as well equipped as they can be and have the expertise to deal with these things—not just to look for compliance with codes of practice but also to look for the tell-tale signs of criminal activity. That is the difference here. We are all very well trained in looking for compliance. What we are not so well trained in as retailers is looking for criminal activity, because it is not our core competency. We are therefore on a learning curve in that respect.

Chairman: Thank you for what you have taught us this morning. If by happenchance, you or any of your board members come across the Prime Minister, might you make to him the comments that you have made to us about reforming the Companies Act? There lies a story, doesn't it? Thank you very much for coming in.