

Written evidence submitted by Inditex (FL0018)

Dear Mr. Darren Jones and Ms. Nusrat Ghani,

Thank you for getting in touch with us regarding the Committee's inquiry. At Inditex we take a zero- tolerance approach towards forced labour of any kind and have stringent policies and actions in place to ensure that it does not take place in our supply chain. We would like to support your inquiry by detailing in this letter the way in which we are working to do this.

As an introduction, it is important to note some relevant details about our Group and business model.

- Inditex is a global fashion retailer present in 96 markets across five continents, conducting its business through eight brands, the largest of which is Zara. In the context of the UK fashion market, we have a relatively modest presence, with only 60 Zara stores.
- Inditex is headquartered in Spain and operates a centralised model with all of its major functions located at its headquarters in A Coruna.
- Compared to our peers, we have a unique business model where the majority of our products are produced in close proximity to this HQ, primarily in Spain itself, Portugal, Morocco, and Turkey
- At a global level, as a major retailer Inditex is committed to playing a leadership role in sustainability, and going above and beyond our legal obligations. This commitment to sustainability is a key driver in the management of the Group and its employees as well as its supply chain.

We note from your letter that the companies you have approached were identified in the Australian Strategic Policy Institute report published in March. It is therefore important to make you aware of certain inaccuracies that were contained in the report, namely the allegation that two factories – one in Xinjiang and one in Anhui – are in Zara’s supply chain. Regrettably, we did not receive contact from ASPI prior to publication, and having informed ASPI of these errors, the report was subsequently amended to reflect our actual position (see pages 32 and 38 of the report [here](#)):

Zara’s owner Inditex claimed that the company “does not have a commercial relationship with Huafu Fashion.”

p.32

Zara’s owner Inditex said that the company has not directly engaged Shandong Zoucheng Guosheng, nor indirectly as declared by any supplier

p.38

Please find below the answers to your questions:

1

Do any of your organisation’s value chains link directly or indirectly to the Xinjiang Uyghur Autonomous Region (XUAR) of China and what steps are you taking to ensure that you have visibility of your entire value chain?

We take reports of improper social and labour practices in any part of the garment and textile supply chain extremely seriously. Inditex has conducted thorough due diligence on this issue which has not found any evidence of direct or indirect commercial relations with any factory in XUAR or with the factories that the ASPI March 2020 report alleged to be in Zara’s supply chain.

All of our suppliers and manufacturers are required to comply with our stringent Code of [Conduct](#) for Suppliers and Manufacturers (hereinafter, the “**Code of Conduct**” or the “**Code**”) in order to be part of our supply chain which explicitly outlaws all forms of forced or involuntary labour. We regularly conduct detailed and robust due diligence and monitoring of all of our suppliers to ensure that none are directly or indirectly engaged in labour rights abuses.

We believe that working with suppliers to consistently improve delivers the best

outcome for workers, and we also have zero-tolerance towards suppliers that do not make changes when necessary. We are committed to working with expert stakeholders at both local and international levels to uphold and safeguard labour standards throughout our supply chain.

The steps that we are taking in order to have visibility of our supply chain are based on three main pillars: raising awareness among suppliers, supplier traceability management, and traceability audits.

- 1. Raising awareness among suppliers:** All suppliers are required to embrace the Group's sustainability policy, as a pre-requisite to be able to produce items for Inditex. Stringent criteria are used to ensure a sustainable supply chain which protects and upholds human and labour rights as well as environmental standards. Suppliers are provided with training, awareness-raising and support, to jointly have a positive impact on the entire supply chain and act as leverage within the industry to uphold these stringent standards.
- 2. Supplier traceability management:** Suppliers must register each and every factory that they intend to use for each stage of production in our traceability management system. All these units must each undergo the Inditex screening process to be approved and authorised for every order. This requires suppliers to identify the factories that will be involved in production, detailing the processes and facilities that will be used.
- 3. Traceability audits:** The traceability team monitors the assignment of manufacturers by the suppliers for each order that is placed, and based on this analysis, traceability audits are triggered. The methodology of these audits is continuously strengthened. The aim is to verify directly that the Group's production is undertaken in the factories and units declared by the supplier and authorised by Inditex. The traceability audit methodology features two-steps.
 - a) An unannounced visit to the factory's facilities to verify the production processes it can carry out, ongoing production and completed production.
 - b) The result of the visit is compared with the information recorded by the suppliers on the traceability management system, to demonstrate that both the processes and the units completed by the factory align with what was declared and approved.

1,396 traceability audits were conducted in 2019 worldwide in order to verify on site that the goods produced for Inditex were produced in factories

previously declared and authorised. In cases where any inconsistencies were found, corrective measures were required to be taken by suppliers. Repeated traceability noncompliance can lead to Inditex terminating the relationship with the supplier.

**Do you identify sourcing geographies for the delivery of services
or
the manufacturing of goods where there is a high risk of human
rights abuse?**

Inditex performs preliminary and ongoing human rights due diligence processes in order to identify, prevent, mitigate and account for human rights impacts in any part of our value chain. Due diligence is one of the main driving forces of Inditex's Human Rights Strategy alongside our Policy on Human Rights and Grievance Mechanisms. (Please see further information on Inditex's Human Rights Strategy in the following question).

Human Rights due diligence at Inditex entails identifying and prioritising potential impacts on Human Rights throughout the value chain, and subsequently integrating the findings into the Group's various management processes. We have partnered with Shift, the leading centre of expertise on the UN Guiding Principles on Business and Human Rights, chaired by John Ruggie, author of the Principles, to conduct our supply chain human rights impact assessment.

One of our most valuable tools to perform this Human Rights due diligence is our supplier clusters, which promote best practice in sustainability within a core geographic region, and which cover 96% of our supply chain. These teams cooperate with local stakeholders such as unions, NGOs, worker associations, governments, and civilian associations to foster engagement with our suppliers and manufacturers. The outcome of this process is that in 2019, 66 Inditex local professionals partnered with 793 external experts in 12 countries to oversee the Human Rights due diligence process across Inditex's supply chain.

This due diligence informs our social sustainability strategy for the responsible management of the supply chain, which is contained in our ['2019-2022 Workers at the Centre'](#) (pages 100-103 of our [Annual Report](#)) strategy, four areas of which specifically focus on the prevention of forced or involuntary labour, through: protection of migrants, women's empowerment, social protection and protection of workers' rights in the production of raw materials. There is more detail on this below.

It is important to note that we conduct due diligence both in the markets in our current supply chain, as well as in any new sourcing market that we are considering.

What actions are you taking to prevent modern slavery and human rights abuses within your organisation and its value chains?

Inditex has a strong compliance framework. Its compliance processes involve gaining a thorough understanding of all parties with which it has a commercial relationship, prior to engagement. Accordingly this enables us to identify any potential corruption and other malpractices before agents can enter our value chain. This important function means that Inditex is not only operating within applicable laws, but that there is alignment with key stakeholders such as business partners, suppliers and customers, with the highest ethical standards.

In short, the Compliance Function is responsible for setting the internal regulations and appropriate and sufficient processes to ensure that the Inditex Group will conduct its business in accordance with applicable laws and regulations, and with its internal regulations promoting an ethical compliance culture among its directors, employees, suppliers and other third parties.

In order to prevent modern slavery and human rights abuses within our organisation and value chain we have developed our own [Human Rights Strategy](#) within the framework of the Guiding Principles on Business and Human Rights, approved in 2011 by the United Nations Human Rights Council. As part of this strategy, we are also members of Shift's Business Learning Program which brings together 22 leading businesses from all sectors to share and incorporate best practice in the area of Human Rights. This Strategy comprises three elements: Policy on Human Rights, Due Diligence and Grievance Mechanisms.

1. Policy on Human Rights:

This outlines our commitment to respecting Human Rights and lists the values and principles guiding our activities. Rejection of forced labour is one of these rights singled out in the Inditex Policy on Human Rights. Specifically, the Policy reads: "Inditex rejects any form of forced or compulsory labour, as defined in ILO Convention 29. This extends both to our own employees and our entire supply chain. Inditex joined the UN Global Compact in 2001, and adhered to its principle 4, according to which, businesses should uphold the elimination of all forms of forced and compulsory work or work done under coercion." Compliance with Inditex's Policy on Human Rights is mandatory for the whole Group and all manufacturers and suppliers that work with

Inditex are required to respect their employees' Human and Labour Rights. This includes applying the same principles to their business partners.

2. Due diligence:

This entails identifying and prioritising potential impacts on Human Rights throughout our value chain as described in the previous question, as well as ongoing due diligence in order to continue to protect and uphold human rights. This latter work is complemented and enriched by the supply chain monitoring carried out to ensure compliance with our Code of Conduct, which explicitly prohibits slavery, forced labour and human trafficking and is complemented by applicable national laws and international standards¹. These measures are applied throughout the entire supply chain, including all tiers and processes, and therefore provide relevant insights on the supply chain reality, its main challenges and areas requiring improvement, that in turn feedback the due diligence process itself. We do this through three main actions: traceability, compliance assessment, and remediation and continuous improvement.

- a) **Traceability strategy:** As detailed in the first question, this consists of raising awareness among suppliers, supplier traceability management, and traceability audits.
- b) **Compliance assessment:** Prior to becoming part of Inditex's supply chain, every potential supplier and manufacturer is subject to a pre-assessment audit, to verify that no violation of Human Rights of its workers exists, and to ensure that only those who meet the Group's sustainability standards may become part of the supply chain. During pre-assessment audits, one of the elements reviewed is the prohibition of forced labour. In 2019, Inditex carried out 2,789 pre-assessment audits

Should a supplier or facility pass a pre-assessment audit to become part of Inditex's supply chain they are subject to regular ongoing audits in order to verify the level of compliance with the Code of Conduct ². Social audits can be conducted both by Inditex teams and renowned external auditors. Each audit specifically looks for any evidence of forced labour, as well as requiring the supplier or facility to provide documentary proof of compliance including freedom of movement and the termination of agreements, the use of agents for recruiting staff and their relationship

¹ The first section of the Code of Conduct for Manufacturers and Suppliers provides that: "Inditex shall not allow any form of forced or involuntary labour in their manufacturers and suppliers. They may not require their employees to make any kind of "deposits", nor are they entitled to retain employees' identity documents. Manufacturers shall acknowledge the right of their employees to

leave their employer after reasonable notice.”

The Code of Conduct for Manufacturers and Suppliers specifies that “aspects related to such limitations will be governed by

Conventions 29 and 105 of International Labour Organization (ILO)”.

Upon entering Inditex’s supply chain all direct suppliers accept and undertake to meet Inditex Minimum Requirements,

which includes this Code of Conduct and the Policy on Human Rights.

²The methodology used in social audits was designed in 2007, jointly with the former International Textile and Garment and Leather Workers’ Federation (ITGLWF, currently part of IndustriALL Global Union), the University of Northumbria (UK) and the Cambridge Centre for Business and Public Sector Ethics. This methodology is continuously reviewed and updated to ensure the incorporation of best practices.

with the workers, including any potential payment of hiring fees, among others. Audit methodology is constantly reviewed and updated to include best practice. 6,411 social audits were conducted throughout the supply chain in 2019.³

c) Remediation and continuous improvement:

Inditex works on the basis of continuous improvement, and remediation is a key tool in the sustainable management of the supply chain and the protection of workers through respect and promotion of human and labour rights.

Should any breach of the Code be identified at a supplier or facility in Inditex's supply chain through an audit, a Corrective Action Plan is launched with a specific time frames for redress, which varies depending on the severity of the breach. In addition to Inditex teams, other third- party stakeholders such as NGOs, trade unions and other civil society organisations can be involved in the setting and implementation of these plans. We believe that this collaborative approach with factories delivers the best outcome for workers. However, should a supplier or facility not be willing to make necessary improvements we take further action.

Inditex supports suppliers and factories beyond Corrective Action Plans through proactive measures to improve the lives of workers such as programmes included under the framework of the strategy for the social management of the supply chain: Workers at the Centre. These programmes are focused on areas such as women empowerment, living wages or occupational health and safety. The Group continuously collaborates with suppliers and works with them to improve their own supply chains, and to promote the Human and labour Rights of their workers.

We also continuously strengthen our engagement with stakeholders at every level of the supply chain to prevent any kind of forced labour. These stakeholders include the Ethical Trading Initiative, the International Labour Organization or IndustriALL Global Union, among other international and local organisations.

Grievance Mechanisms: This is underpinned by the Ethics Line which is managed by the Committee of Ethics and the main grievance mechanism of the Group. Inditex's Ethics Line is available to any employee, manufacturer, supplier or third party and can be used anonymously. It can be used to report

any concerns about wrongdoing or malpractice relating to breaches of the Group's Codes and internal regulations of conduct by employees, manufacturers, suppliers or third parties with whom Inditex is engaged in an employment, business or direct professional

³ In addition to pre-assessment and social audits, Inditex also conducts special audits, which focus on verifying compliance with a certain section of the Inditex Code of Conduct for Manufacturers and Suppliers, where a potential non-compliance is detected, for the purposes of preventing, monitoring or remedying any risks. 1,619 special audits were conducted in 2019.

relationship. The Committee of Ethics is responsible for launching any necessary investigation, and for proposing the relevant remediation, prevention and awareness-raising measures. The Line works on the basis of confidentiality and non-retaliation, presumption of innocence and the right to be heard.

What evidence can you supply of compliance with all applicable labour, procurement and anti-slavery laws?

Evidence of compliance with applicable labour, procurement and anti-slavery laws are gathered through the ongoing due diligence of the supply chain. Our monitoring procedures and improvement plans ensure compliance with our Code of Conduct and all of our Sustainability and Human Rights requirements mentioned above: traceability, compliance assessment and remediation and continuous improvement.

a) Traceability:

A total of 1,396 traceability audits were conducted in 2019. The number of traceability breaches was 247. New methodology for traceability audits was launched in 2019 through which auditors are able to detect inconsistencies more thoroughly. Non-conformities are categorised according to severity and corrective measures are established which the supplier must carry out.

b) Compliance Assessment:

In 2019, Inditex carried out 2,789 pre-assessment audits, 612 more than in the previous year – 81% of the companies audited were approved, meaning a fifth were not able to enter Inditex's supply chain.

In addition, 6,411 social audits were carried out, compared to 5,359 in 2018. This rise is chiefly due to progress in the traceability of materials and the inclusion of non-textile items within the scope of the audits.

During social audits all sections of the Code of Conduct are verified, including all requirements and provisions related with forced labour.

c) Remediation and continuous improvement actions:

In 2019, Inditex teams conducted different continuous improvement plans. For instance, 400 Corrective Action Plans were launched to improve compliance

with our standards.

Furthermore, as evidence of our mechanisms to ensure compliance, the Ethics Line processed 310 cases in 2019 (page 307 of our [Annual Report](#)). No evidence was found of violations of Human Rights, either among Inditex's employees, or among its suppliers.

5

What are your human rights due diligence processes in respect of your workers and value chains?

As explained in our answer to second and third questions, due diligence is the second main driving force of Inditex's Human Rights Strategy; the political commitment reflected in the Policy on Human Rights being the first, and grievance mechanisms, the third. Due diligence entails identifying and prioritising potential impacts on Human Rights throughout the value chain, to subsequently integrate the findings into the different processes of the Group.

Inditex's due diligence process is based on the guidelines and recommendations included in the UN Guiding Principles on Business and Human Rights, and have been designed with the support of Shift, the leading centre in terms of the UN Guiding Principles. This process includes the following steps:

1. Identification of potential negative impacts of our operations or relations.
2. Prioritisation based on severity and likelihood.
3. Integration of the results into already existing processes of the company or the creation of new processes where appropriate.

Key areas of the Group, such as Sustainability, Internal Audit, Human Resources or Risk Management in coordination with the Compliance Function are involved in designing due diligence processes, which are continuously reviewed and updated.

1. Identification of potential negative impacts of our operations or relations.

We identify potential impacts of our operations or relations by a thorough analysis of all links of the value chain. Several sources of information are used to inform this process such as: internal analysis lead by the company department in charge of management of the value chain specific area, international and national legislation, international best practices in relation to Human Rights, information from reliable sources about potential and actual Human Rights impacts on different contexts,

information about the supply chain gathered through all types of assessments regularly performed (namely, traceability, social, pre-assessment and special audits), the experience and learnings of Inditex's local sustainability teams,

or inputs from our key stakeholders (for instance, IndustriALL Global Union or the International Labour Organization).

Stakeholder engagement is key to this process. By understanding the perspective of potentially affected stakeholders or their legitimate representatives helps to improve the quality of the Group's analysis of actual and potential human rights impacts to inform our work methods.

All the information gathered through these inputs is consolidated in a preliminary potential human rights impacts map.

2. Prioritisation based on severity and likelihood.

Each potential human rights impact is prioritised based on its severity and likelihood.

- Severity: based on the scale, scope and irremediability of the impact.
- Likelihood: in terms of the nature of the business relationships, operating context, and the business activity.

3. Integration of the results into existing processes of the company or the creation of new processes where appropriate.

Once the most salient issues are identified, an analysis is carried out with the relevant area of the company in order to evaluate the existence of mechanisms in order to prevent, mitigate or remediate the corresponding potential impact. Should mechanisms already be in place, they are reevaluated for potential further development or reinforcement.

Shift, the leading organisation in the field of Human Rights, supports Inditex while carrying out this due diligence process.

One of the findings of the due diligence process has been the identification of the supply chain as one of the main areas where human rights impacts may occur. Influenced by this, Inditex has created a dedicated strategy for the social sustainability management of the supply chain, which takes into account the guiding international frameworks regarding human and labour rights: Workers at the Centre 2019- 2022 explained below.

**Modern Slavery Statement and including contractual obligations
with suppliers - to ensure modern slavery compliance in your value
chain?**

We go beyond publishing a Modern Slavery Statement, which can be found on the homepage of [Inditex](#) and [Zara's](#) websites, through our strategy for the socially sustainable management of the supply chain: [Workers at the centre 2019-2022](#). Engagement with numerous stakeholders, industry organisations, NGOs and other brands are central to this Strategy and are key to upholding and safeguarding labour standards throughout our supply chain. As an example of how we go 'beyond audit' is our longstanding Global Framework Agreement with IndustriALL Global Union. First signed in 2007 and renewed in 2019, it was the first of its kind in our industry, designed to promote best practices in freedom of association and collective bargaining rights throughout our supply chain. It was designed to uphold and promote the international standards enshrined in the conventions of the United Nations, International Labour Organization (ILO) and the Organisation for Economic Cooperation and Development (OECD), which are in turn echoed in our Code of Conduct for Manufacturers and Suppliers.

Workers at the Centre 2019-2022

In 2019, Inditex launched a new strategy for the social management of the supply chain: the ['2019-2022](#)

[Workers at the Centre'](#) strategy (pages 100-103 of our [Annual Report](#)). It replaces the previous "2014- 2018 Strategic Plan for a Stable and Sustainable Supply Chain" and works on the premise of understanding and meeting the needs of workers, their families and the communities where they live, for the purposes of promoting decent work and sustainable production environments.

Our Human Rights due diligence work, in partnership with Shift and our Sustainability teams across our clusters, has identified seven priority human rights impact areas: worker participation, living wages, women empowerment, occupational health and safety, protection of migrants, social protection and protection of labour rights in the production of raw materials. Four of these areas especially stand out with regard to the supervision of the supply chain in the field of forced or involuntary labour, namely: protection of migrants, women's empowerment, social protection and protection of workers' rights in the production of raw materials. The scope of this strategy is across the entire supply chain.

1. Protection of migrants:

[Further information in page 129 at our Annual Report](#)

Inditex relies on a strategy to protect migrants revolving around three specific goals, allowing us to remedy any potential irregular situation, promote fair labour practices for migrants and encourage integration in the workplace. This strategy is based upon strict analysis and an effective monitoring of the conditions of migrant workers present in the supply chain to ensure that no violation of their rights exist. Where any violation of their rights is detected, Inditex sets in train remediation to protect workers. These

remediation plans may rely on the collaboration of external bodies, in addition to the involvement of suppliers, manufacturers and commercial teams. For instance, in Turkey, the Group supports the Refugee Support Centre (MUDEM) NGO through a framework agreement.

In addition to individual remediation plans, projects focusing on protection of migrants and cohesion of the supply chain and in the community are implemented. To develop such projects, and to address the challenges relating to recruitment and employment of migrants, cooperation with various stakeholders is required. Therefore, Inditex is a partner of key players, such as the International Labour Organization, UNHCR, the Ethical Trading Initiative (Inditex has been a member since 2005), employers' associations and other brands, suppliers and NGOs. In addition, the Group is a member of the Tent Partnership for Refugees platform.

2. Women Empowerment:

[*Further information in page 118 at our Annual Report*](#)

Inditex's strategy for the empowerment of women in the supply chain was approved in 2017 and renewed in the framework of the new "2019-2022 Workers at the Centre" strategy and is important because the majority of garment industry workers are female. It focuses on promoting equal rights and opportunities for male and female workers across the supply chain. The strategy revolves around three pillars: –health, protection and empowerment– and is based upon different tools for continuous improvement, supplemented by a gender perspective that supports women-related issues and implementing specific gender-related measures and practices.

Different programmes and initiatives are carried out in the three pillars of the strategy, for which Inditex partners with different organisations such as BSR (Business for Social Responsibility), Medicus Mundi Sur, SAVE or Swasti (an NGO in the area of health and wellbeing) in different countries of the supply chain. As an example, to promoting Human and Labour Rights in spinning mills in South India, Inditex launched the "Sowbhagyam" programme in 2013, in partnership with the local expert SAVE (Social Awareness and Voluntary Education), with the main goal of establishing a strong, successful and replicable model throughout the community.

3. Social Protection

[*Further information in page 134 at our Annual Report*](#)

Social protection is defined as the set of policies and programmes designed to

reduce and prevent vulnerability in the lives of people. Social protection extends not only to workers, but also to their families, including young people not of legal working age. For such reason, within the scope of the Social

Protection priority area, a specific line of work is to collaborate with local communities to alleviate poverty and prevent child labour.

It should be noted that the Code of Conduct for Manufacturers and Suppliers of the Inditex Group states clearly that: “Manufacturers and suppliers shall not employ minors. Inditex defines minors as those persons who have not yet reached their 16th birthday. In cases where local legislation stipulates a higher minimum age, the higher limit shall apply”.

Inditex takes this provision of the Code with the utmost seriousness and, where necessary, will set in train a remediation plan aimed at providing potentially impacted people with the appropriate remediation.

4. Raw materials:

[Further information in page 139 at our Annual Report](#)

Raw materials are key to any supply chain, including the textile sector. Without them, no goods could be produced. Being the most distant link in the supply chain, and considering the complex structure of their production (production processes for each raw material are completely different, from large production companies to individual works, and from natural raw materials to man-made ones), workers in this sector live a different reality than workers at factories of finished goods.

Inditex has a strategy to protect labour rights upon in raw materials production. Such strategy was consolidated in 2019 within the framework of the “2019-2022 Workers at the Centre” programme. The Group takes a holistic approach regarding the protection of the rights of the workers involved in such production, joining forces with several actors, including local and international organisations, and communities themselves. By way of an example, in order to foster sustainability across the cotton supply chain, [Inditex collaborates with other experts in the sector](#), such as the International Labour Organization, Better Cotton Initiative (BCI), Textile Exchange or Organic Cotton Accelerator.

Of note, in 2017 Inditex funded a public private partnership (PPP) with the ILO to promote the wellbeing of the involved in the production of raw materials. The PPP seeks to promote the fundamental labour principles and rights in cotton-producing communities and contribute to the sustainability of the cotton supply chain. So far Inditex has collaborated with the ILO in cotton producing regions in India, Pakistan, China and Mali. For example, training programmes were launched in cotton farming

communities in Pakistan to raise awareness of fundamental labour rights, social dialogues, applicable laws and regulations as well as specific health and safety issues.

<https://www.inditex.com/en/how-we-do-business/right-to-wear/partnerships>.

We are committed to preventing forced labour at every level of the garment and textile supply chain and will continue to engage with expert stakeholders at both local and international levels to uphold and safeguard labour standards.

Yours sincerely,

Javier Losada Montero,
Inditex Corporate Head of Sustainability

October 2020