

Dear Mr. Horvath,

Thank you for getting in touch and giving us the opportunity to comment on the story by *Facing Finance*.

We want to first iterate Inditex' position on human rights and living conditions of workers within the supply chain that it has zero tolerance of any related infringement of its Code of Conduct for Manufacturers and Suppliers. This Code sets out the principles of the OECD, the Ethical Trading Initiative Base Code, the principles of the UN Global Compact and, among others, a number of conventions of the International Labour Organisation (ILO).

Inditex' Code of Conduct is a practical tool used to monitor its whole supply chain to continue improving textile industry standards globally. We have a 'hands on' approach to sustainability and the joint work that Inditex maintains with the international trade union IndustriALL, by means of the Global Framework Agreement signed in 2007, is a crucial part of this. This agreement protects the interests of all workers involved directly or indirectly in the set of activities developed by Inditex, establishing better standards in matters of trade union rights, health, safety and environmental practices, among others. We would be happy to share more details of this, should it be of interest at any point.

Before specifically comment regarding the *Facing Finance* article, there are some concerns with the report which we think it is important that you are aware of and understand.

Misleading contents of the *Facing Finance* article

1. We thought it important to highlight that *Facing Finance* **did not contact us** at any point in the compilation of their report. As such, it includes some factual errors and inconsistencies which we detail accordingly below.

2. Importantly, the report notes 'Inditex (Zara) has also been implicated in forced labour in sweatshops in Argentina' with a reference to an Al Jazeera article. This is incorrect. It refers to an instance when La Alameda, an Argentinian NGO denounced the existence of three irregular workshops supposedly sourcing several brands, including Zara. In fact, **this**

accusation is completely untrue, as the Court in Buenos Aires has definitely proved and confirmed in one sentence.

3. The content of the report also incorrectly describes Inditex's 'proximity model' where it says 'meaning production takes place close to the brand's consumer markets' and describes this as the reason for Inditex's proportion of sourced products in Brazil. In fact our 'proximity sourcing model' refers to the fact that **60% of Inditex's production takes place in or close to its distribution centres in Spain**. Less than 35% of products sold by Zara Brasil are made in Brazil which in fact represents less than 1% of global manufacturing for Inditex.

4. In the *Facing Finance* report's methodology it included companies with a focus on recent events (to include events in the previous three years). It does not happen in the Inditex page. We note that a large part of the report's section on Inditex is related to a case involving a supplier of Inditex which occurred back in 2011, five years ago. **This does not reflect the current picture of Brazil's supply chain**. Actually, there have been several initiatives that no other company has taken in the supervision of the supply chain and in offering customers specific details of the suppliers' performance. Some of them are mentioned below.

The *Facing Finance* story raises a number of points, so we hope to build understanding by commenting on each specifically.

Confirmed facts of Inditex Responsible Performance

A) Actual initiatives taken in Brazil. We note that a large portion of the section on Inditex was lifted verbatim out of the SOMO Reporter Brazil (May, 2015) ('From moral responsibility to legal liability? <http://www.somo.nl/>'). Yet *Facing Finance*'s report focused on the historical background section of this SOMO report, but missed details of the significant efforts carried out by Inditex since 2012 to guarantee the correct performance in terms of labour rights in the Brazilian companies that manufacture its products.

We kindly ask you to review the conclusions of the report itself on page 55 of the SOMO report (http://www.somo.nl/publications-n/Publication_4188/picture/image_view_fullscreen) though we can also provide a summary of the actions Inditex has taken in Brazil here:

- Since 2011, Inditex has reported a significant increase in the **number of inspections** performed at its Brazilian suppliers and subcontractors, either by the

company's own staff or by outside consultants. To be exact, since 2012, Inditex has carried out more than 2,800 audits to the Brazilian companies that manufacture its products, supported by the most demanding international procedures based on our Framework Agreement with the Global Federation of Unions (IndustriALL, which represents 50 million workers in 144 Countries) and performed by prestigious international and independent agencies as Intertek, SGS and Apcer. Inditex can firmly guarantee the correct performance of this Brazilian supply chain in terms of labour standards.

Not only did the company increase the number of audits, it also strengthened its monitoring mechanisms, in cooperation with the Brazilian Textile, Garment, Leather and Footwear Workers' Federation.

- Inditex undertook efforts to stimulate suppliers' compliance with the Inditex code of conduct by creating a **good practices manual for suppliers**; by adopting a social compliance certification scheme; and by implementing pilot projects at suppliers in cooperation with UNIETHOS.
- Together with Brazilian civil society organizations, the company has also promoted **investments in immigrant communities' projects**. The results of which can so far be summarized as so:
 - Creation of an **Emergency Fund** which has helped over 40,000 people.
 - 10,000 people attended in the effort to support the **documentation of migrant workers**.
 - 90,000 participants in various activities designed to **help vulnerable immigrants** and youths.
 - Professional **training projects** in the garment sector and related activities.
 - Funding for the **creation of the CIC**, which is expected to benefit 1,000 immigrants each day. The institution supports the regularization of their migratory situation promoting vocational training.
 - Overall **investment in community projects** of over BRL14 million.
 - In this same line, Inditex has collaborated closely with renowned NGOs on this task, including CDHIC, CAMI and Missão Paz.
- Zara Brasil announced in May 2014 the launch of the '**Manufactured in Brazil**' ('**Fabricado no Brasil**') initiative. All the labels of garments made in the country have a QR code to allow full access to information about the manufacturing details of each

and every garment, including social and working conditions across the production line. This is a radical and unprecedented initiative to open up our supply chain in Brazil. We believe this is a sign of our commitment to improving conditions, which we believe surpasses that of our peers.

- **Zara Brasil's complaints hotline** was significantly strengthened when the company outsourced the operation of the service to the Center for Human Rights and Immigrant Citizenship (CDHIC), thereby providing an avenue for "legal and social referrals of accounts by immigrants of any nationality who want[ed] to report cases of discrimination and/or working conditions analogous to slavery".

B) Legal defense. The *Facing Finance* report also referenced the pending legal case between Zara Brasil and the Brazilian authorities regarding the *Cadastro* (so called *dirty list*) instigated in 2012, stating 'Zara's irresponsible legal strategy undermines Brazilian efforts to eradicate modern-day slavery'. We refute this statement. We viewed this case as an administrative process and as a democratic right to defend the company's reputation of what it understands as an unfair decision that in no way impacted Inditex' continued effort to improve working conditions in Brazil. Inditex continues to amply demonstrate its commitment to fighting for better social and labour conditions.

Importantly, it is worth highlighting that the *Cadastro* was suspended in December 2014 by the Federal Court of Justice (Supremo Tribunal Federal) of Brazil because of the constitutional claim filed by an entrepreneur organization, as such, it does not now legally works. And to be sure, Zara Brasil has also never been included in it.

C) Untrue picture of the supply chain. Finally, the *Facing Finance* report also references a report by the Brazilian Labour ministry which alleged that 7,000 workers were badly treated since 2012. We should highlight that this is an unfair accusation as none of these alleged violations were regarding human rights issues or modern slavery. First of all, Inditex is one of many Brazilian brands producing in those Brazilian factories. Then, most of the alleged violations were minor administrative infringements such as adequate seating in staff rooms, that took place two or three years ago (they were recovered in 2015 from files from between 2012 and 2014) and many of which have been identified through Inditex' own audits and consequently resolved.

It is important to highlight that, in any case, during all of that time, the Labour ministry did not once notify Zara Brasil of any irregularities. It is surprising that in many of these cases companies inspected by the Regional Department of Employment also were not notified.

As a result, this could have prevented steps from being taken to correct issues, should they not have been picked up by our own audits. This is an important point, since according to the Good Conduct Undertaking (TAC) signed on 19 December 2011 Inditex should have been notified of these violations immediately after being found, so they could be corrected within ten days.

This also seemed to be a major contradiction implied by denouncing violations in Brazilian textile business's facilities yet not taking any immediate corrective action to ensure an improvement in employment conditions.

And, as we have mentioned, it is also worth pointing out that the Labour ministry only named Zara Brasil in this report, in spite of the fact that Zara Brasil accounted for less than 15% of the total production of suppliers named.

This report is currently under discussion with the Brazilian authorities.

To summarize regarding Brazil, we also think it useful to include **comments from Jyrki Raina**, General Secretary of the IndustriALL Global Union, regarding Inditex's supply chain in Brazil. IndustriALL, as you know, represents over 50 million workers in 142 countries, including the members of Brazil's garment sector union Sindicato das Costureiras, and fights tirelessly to improve working conditions worldwide. He notes that "a number of joint missions that have been carried out by IndustriALL affiliates and Inditex representatives to make improvements in Brazilian factories", and adds that "**Inditex has developed robust systems to prevent, control and remediate** potential breaches of the GFA and the company's Code of Conduct [...] Their main objective is to protect and strengthen workers' rights while training the management and workers to achieve a common understanding". "With **committed partners such as Inditex** we are definitely on the right path for ensuring sustainable conditions of work throughout the global supply chain".

D) **Misleading mention to Pull & Bear**. Finally, the *Facing Finance* report referenced irregularities found by the Institute for Global Labour and Human Rights at a factory in Bangladesh supplying to Pull&Bear. This case is precisely the opposite of what the article intends to say. It is actually an example of how the Sustainability Team works at Inditex and how to react with a supplier, helping them to reach the best practices.

This case is brilliantly summarized in the following article by the Institute for Global Labour and Human Rights: <http://www.globallabourrights.org/alerts/bangladesh-unprecedented-turnaround-at-jeans-plus-factory>.

To briefly summarize the case, the action taken by Inditex allowed to confirm that:

- Jeans Plus management guarantees that all workers receive their Friday holiday off each week.
- Factory remains open no later than 7:00 p.m. (50% of the workers were released at 5:00 p.m., while the other 50% worked work until 7:00.)
- Pregnant women workers receive their full maternity benefits.
- All workers receive legal sick leave and earn leave benefits.
- Jeans Plus management guarantees full compliance with all Bangladeshi labor laws.
- Mid-level managers and supervisors were instructed to assure an appropriate treatment to workers decently.

We highly appreciated the commitment of both the management with the implementation of this measure and the NGO Global Labour and Human Rights which has actively followed the issue. These fast actions were acknowledged and commended by the IGLHR and do feel free to contact them directly should there be any doubts.

From Inditex' perspective, this is one of the many cases of the never-ending task to guarantee the sustainability in the supply chain, always looking at the medium and long term period.

Thank you indeed for getting in touch for comment and if you would like any further information, or to discuss this further, please do not hesitate to let us know. We keep at your disposal for any further information or clarification required.

Best wishes,

Inditex External Relations.