

5TH November 2018

RESPONSE TO WOOLWORTHS UPDATE IN RESPONSE TO ACCR AND LUCRF RESOLUTION

On the 2nd November, Woolworths released a statement to the market in response to the shareholder resolution sponsored by the Australasian Centre for Corporate Responsibility (ACCR), the National Union of Workers (NUW), and LUCRF Super (2018 Proposal). The company's statement does not give an accurate reading of the status of the negotiations between Woolworths and the National Union of Workers (NUW), and the company's progress towards implementing the commitments made in 2017.

ACCR and LUCRF Super have prepared this statement to address the claims made by Woolworths in their statement, so that shareholders receive accurate information prior to the vote on the 2018 Proposal.

1. "... it was expected that up to 12 months would be required to complete the development of the program."

"At the time of the 2017 Announcement Woolworths never envisaged or promised to enter into a written agreement with the NUW."

ACCR and LUCRF Super acknowledge that significant progress had been made over the 10 months of negotiations from the time the 2017 commitment was made. However, we understand that these negotiations stalled when the two parties attempted to give formal effect to the principles agreed upon in Woolworths' 2017 commitment and subsequent negotiations.

Specifically, the point to contention was the implementation of a truly tripartite approach involving both the company and trade unions to address labour rights' violations in Woolworths' domestic food supply chain. ACCR and LUCRF Super are concerned to ensure that our engagement with companies does not merely result in paper commitments, but rather in the delivery of these commitments on the ground. While this is a new development in Australia, it is common practice globally for shareholder organisations such as ACCR and LUCRF Super to file successive resolutions over a number of years where risks have not been sufficiently addressed.¹

Further progress was made on these outstanding issues following the filing of the 2018 Proposal. **It is our belief that these negotiations between Woolworths and NUW would not have proceeded without the filing of the second resolution and external shareholder pressure.** ACCR and LUCRF Super have favoured the approach of letting these negotiations run their course, rather than being involved at each step.

However, despite being close to reaching agreement, in the last week ACCR and LUCRF Super have seen communications that indicate that Woolworths' may be willing to walk away from implementation measures agreed on with the union. Letting negotiations lapse without a mechanism to deliver on the commitments made to shareholders would, in our view, be a poor result for shareholders.

Relatedly, Woolworths' negotiations with the NUW following their 2017 commitment is frequently cited in their reporting to 3rd party supply chain assessment schemes.² The inaccurate presentation of the status of the negotiations should be of concern to shareholders, as it will have impacts on Woolworths' ranking under these schemes.

2. "Given the overarching principle of freedom of association, Woolworths does not believe it can or should mandate trade union involvement to its suppliers (or to its suppliers' suppliers, such as labour-hire providers)."

Mandating trade union involvement in worker education and grievance procedures does not contravene the principle of freedom of association, as workers' will not be required to join the union nor discriminated against for their decision not to join. Trade union participation in worker education and grievance procedures is

¹ See <http://proxymonitor.org/> for comprehensive accounts of shareholder resolutions filed in the US.

² https://knowthechain.org/wp-content/plugins/ktc-benchmark/app/public/images/company_reports/2018_KTC_F_B_Scorecard_Woolworths.pdf

already mandated in parts of Woolworths operations that cite freedom of association as a key principle. For example:

- **Seasonal Worker Program:** the federal government specifies that as part of their on-arrival briefing, Approved Employers will invite a representative from the relevant union.
- **2018 Bangladesh Accord:** requires suppliers to provide training teams (including union representatives) access to their factories. The training will cover a number of issues, including freedom of association.³

In the 2018 Know the Chain benchmark, Woolworths scored relatively highly for “Commitments and Governance”, but only 16/100 for “worker voice”. It was recommended that they employ 3rd parties (including trade unions) to oversee their grievance mechanisms and worker education.⁴

3. Woolworths Responsible Sourcing Standards

Woolworths claims that their Responsible Sourcing Standards and Policies, introduced in July 2018, are sufficient to meet the commitments made in 2017 regarding labour-hire pre-qualification, worker education and grievance procedures.

While these Standards represent significant progress for Woolworths, they fall short of international best-practice approaches to minimising human and labour rights risks in supply chains, and will have limited efficacy in mitigating the severe labour rights violations – including modern slavery - documented in Woolworths’ domestic food supply chain.

The 2018 Proposal was filed to signal to Woolworths’ that only a tripartite approach will be sufficient to ensuring compliance with international human and labour right standards throughout their operations and minimise the risk of severe labour rights violations in their domestic food supply chains.

Woolworths has recognised the importance of a tripartite approach in addressing risk in their global apparel supply chains. This resolution seeks to prevent asymmetries in risk mitigation and compliance approaches developing between supply chains exposed to similar risks and degrees of vulnerabilities.

The 2018 Proposal sets out the key principles that underpin effective compliance in global supply chains, and is not intended to prescribe how a labour-hire prequalification programme, or union participation in worker education and grievance procedures should operate.

4. Labour-hire pre-qualification

Woolworths’ outlines a number of criteria which will be used to qualify labour-hire providers in their supply chain. **These criteria all rely on 3rd party auditors or federal government programs to monitor labour-hire providers. This is markedly insufficient to manage risks to shareholder value.** Shortcomings of this approach, and evidence of the significant discrepancies between the labour-hire providers approved under each of the programmes identified by Woolworths, have been addressed in detail in the Investor Brief, and will not be discussed here.⁵

5. Disclosure

Woolworths’ Sustainability Report provides limited metrics to allow investors to evaluate progress against a number of key indicators in their global operations. **ACCR further understands that Woolworths elected not to respond to the 2018 WDI survey.** Given that a number of Woolworths’ shareholders are signatories to the WDI, Woolworths’ failure to disclose should raise concerns about Woolworths’ supply chain transparency.

³ <http://bangladeshaccord.org/wp-content/uploads/2018-Accord-full-text.pdf>, p. 5

⁴ https://knowthechain.org/wp-content/plugins/ktc-benchmark/app/public/images/company_reports/2018_KTC_F_B_Scorecard_Woolworths.pdf

⁵ <https://accr.org.au/wp-content/uploads/Woolworths-Investor-Brief.pdf>

6. Woolworths Responsible Sourcing Risk Assessment

Woolworths says that will analyse the specific vulnerabilities in the domestic farm supply chain by developing a “baseline of information from suppliers through analysing data from social compliance self-assessments and audit reports”. Reliance on the data from such reports is manifestly insufficient to manage risk. **The significant vulnerabilities – and associated business risks – in Woolworths’ domestic farm supply chain have already been excessively documented in a number of government inquiries, which have highlighted significant and urgent issues.** Since the 2017 Commitment was made, a major Woolworths’ supplier was implicated in a scandal involving significant underpayments and dangerous working conditions.⁶ This resulted in a federal court case and ultimately a negotiated settlement between the workers and the supplier.

ACCR and LUCRF Super recommend that shareholders vote in favour of this resolution to ensure that Woolworths commitments to manage risks in its supply chain and business operations are met with appropriate implementation plans.

⁶ <http://www.abc.net.au/news/2018-05-23/government-suspendslabour-hire-firm-amid-underpayment-claims/9788742>