



Greenwheel Insights
Fast Fashion: Social Issues in Focus
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Executive Summary









- The fast fashion industry contributes to economic growth, poverty alleviation, and women's empowerment in emerging markets, employing approximately 94 million workers in a largely female-dominated workforce. Despite this positive impact, there are inherent human rights risks across fast fashion's value chain; from forced labour and child labour risks in cotton production, to excessive overtime and poor working conditions on factory floors.
- There is increased scrutiny on the human rights risks in fast fashion stemming from legislators and from public pressure in response to emerging issues, particularly mass layoffs and failure to pay for work completed during the pandemic and the use of Uyghur forced labour in cotton, manufacturing, and assembly in China. The U.S. and Canada, for example, have imposed bans on products produced wholly or in part from Xinjiang due to forced labour risks.
- Companies have further exacerbated human rights risks in their value chain through poor purchasing practices, lack of transparency and traceability, and limited leverage to non-strategic suppliers.
- Investors have a critical role to play in engaging their fast fashion portfolio companies on some of the key drivers of human rights risks.

Key questions to explore and recommended actions:

Key questions for companies	What investors can do
<p>Transparency and traceability: Do you have visibility over your supply chain beyond your immediate tier 1 suppliers? Can you identify the origins of the raw materials and components in your supply chain?</p>	<p>To promote transparency and traceability:</p> <ul style="list-style-type: none"> Encourage companies to map their supply chains beyond tier 1 and provide support to suppliers in tracing their supply chains.
<p>Identifying emerging human rights risks: How do you identify your salient human rights risks for different stakeholder groups? Is this reviewed on an annual or on-going basis?</p>	<p>To proactively identify human rights risks:</p> <ul style="list-style-type: none"> Encourage companies to partner with Better Work, Ethical Trading Initiative, Fairwear Foundation, Fair Labor Association, or other human rights expert organisations; and, Work with other investors to create an environment where companies can openly and transparently discuss human rights risks for continuous improvement.
<p>Responding to Uyghur forced labour risks: How are you ensuring that your direct and indirect suppliers are not using Uyghur forced labour? Are there any new measures in place to tackle this emerging risk?</p>	<p>To address emerging risks such as Uyghur forced labour:</p> <ul style="list-style-type: none"> Follow-up with companies with alleged Uyghur¹ forced labour risks and ask them to validate and check their supply chains for direct and indirect linkages to forced labour; and, Set up mandatory minimum human rights expectations and standards on forced labour for all business relationships (e.g. suppliers, agents, licensors, retailers, and other relations)
<p>Purchasing practices: How does your company account for pre-production delays, delays in approvals, and order modifications in relation to lead times? Are deadlines adjusted accordingly and mutually agreed upon between you and your suppliers?</p>	<p>To tackle poor purchasing practices:</p> <ul style="list-style-type: none"> Advise companies to adopt the recommendations set out by the 12 Sustainable Terms for Improved Purchasing Practices; Where possible, encourage companies to adopt efficient and standardised designs to save time in the production cycle; Ask companies to work closely with factories to understand their capacity and improve production planning; Encourage companies to provide training for their sourcing and design teams on the human rights impact of poor purchasing practices on supply chain workers; and, Recommend companies to formalise human rights responsibilities beyond sustainability functions (e.g. sourcing teams, across business units).
<p>Purchasing practices and adverse human rights impact: Have you assessed how your business model (e.g. short lead times) affect decent work practices across your supply chain? What have you done to mitigate and remedy these adverse impacts?</p>	

¹ Uyghurs are an ethnic minority group in China's Xinjiang province. They are predominantly Muslim and speak Uyghur (a Turkic group of the Altaic language family). [OHCHR | Universal Declaration of Human Rights - Uyghur](#)

Increasingly, leading fast fashion companies are actively addressing adverse human rights risks and promoting positive social outcomes. Below are eight emerging best practices to tackle purchasing practices, buyers' internal governance and approach to human rights, and suppliers' understanding of decent work:

 <p>Engaging suppliers on production planning</p> <p>Nordstrom's quality engineering experts work with factories to understand their capacity.</p> <p>Nike examines the capacity of factories to improve production planning.</p>	 <p>More efficient and standardised designs</p> <p>Timberland adopts a model using base fabrics and styles. This enables suppliers to book up raw materials for 55% of its main line styles.</p> <p>Nike's standardised efficiency reduces the need to redesign components of shoes to save time in the production cycle.</p>	 <p>Capacity management for peak seasons</p> <p>GAP analyses supplier data to identify ways to smooth out production volume to use "off" periods.</p> <p>Timberland produces 50% of its larger-volume styles early before peak periods.</p>
 <p>Incentivising suppliers for good performance</p> <p>New Balance allows suppliers with good performance in audits without zero tolerance or high-risk issues to manage their own Corrective Action Plans.</p>	 <p>Formalising human rights responsibilities</p> <p>Levi's Global Sourcing Team is accountable for social and environmental standards.</p> <p>Nordstrom has CSR experts sitting in each business unit (men's, women's, footwear, etc.) who report to the Director of Supply Chain.</p>	 <p>Human rights training for buyers</p> <p>GAP provides social responsibility training to all production, sourcing, and merchant teams on purchasing practices and impact on workers.</p> <p>Philips Van Heusen trains all managers and above on how supply chain flows impact human rights.</p>
 <p>Training for suppliers on human rights</p> <p>American Eagle Outfitters, Disney, Dick's Sporting Goods, GAP, Fast Retailing, GAP, New Balance, PVH, Target, and The Children's Place support factories in establishing worker-management committees to promote decent work through social dialogue in partnership with ILO-IFC's Better Work programme.</p>	 <p>Partnering with NGOs for social impact</p> <p>More than 50 buyers have partnered with BSR's HERproject to promote women's empowerment in their global supply chain improving women's health outcomes, increasing access to financial inclusion, and reducing gender-based violence.</p>	

Source: Redwheel, as at 28th February 2023. The information shown above is for illustrative purposes.

Why focus on social issues in fast fashion?

A snapshot of fast fashion's global footprint



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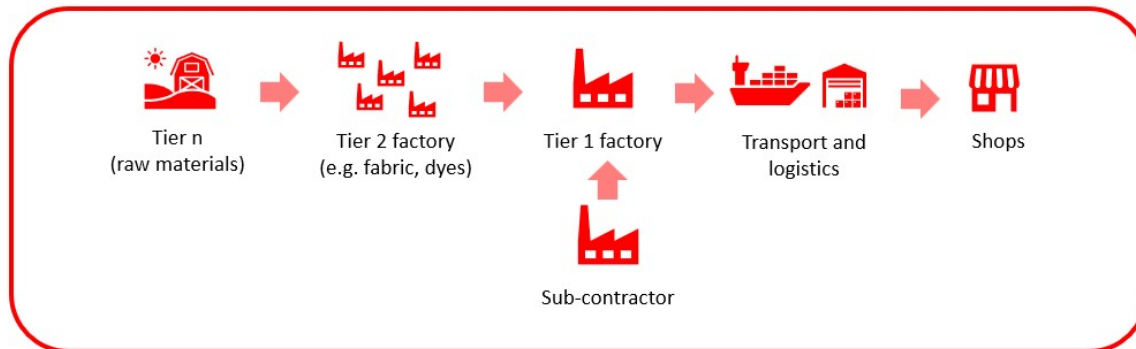
- Fast fashion plays a critical role in poverty alleviation and economic growth in many emerging markets. **Contributing to 2% of the world's GDP, the garment sector provides employment opportunities for approximately 94 million supply chain workers.** As women make up around 60% of the workforce, the sector has socially and economically empowered women workers who would otherwise be engaged in low-wage employment in informal or rural economic activities.
- **The positive impacts of fast fashion are often overshadowed by the human rights violations found across the supply chain that are well-documented;** from excessive overtime and poor working conditions in tier 1 factories, to the use of child labour in harvesting cotton. Labour rights risks are not confined to emerging markets – Boohoo paid less than minimum wage for adults and disregarded COVID lockdown rules in the UK.
- **During the pandemic, some buyers have failed to pay their suppliers, demanded discounts, or retracted orders, which affected suppliers' abilities to pay workers for work already completed.** More than 9,800 supply chain workers were owed unpaid wages.² Of the tens of thousands of workers who lost their jobs, one in four did not receive mandated severance pay during the pandemic.³ The disruptions led to unprecedented job losses that disproportionately affected young women workers.
- **Even companies that have the best human rights performance encounter ever evolving human rights risks.** Adidas, which ranked first in the World Benchmark Alliance for apparel companies, is associated with the use of Uyghur forced labour for its cotton products. Despite ranking second in the Benchmark, Tesco's tier 1 suppliers in Thailand reported using forced labour, confining Burmese migrant workers to working 99-hour weeks with illegally low pay.
- **In response to the human rights risks in fast fashion, legislators have highlighted it as a high-risk sector, which requires companies to have the adequate human rights due diligence policies and systems** as observed in draft legislation including Austria's Social Responsibility Law, Belgium's vigilance proposal, the European Corporate Sustainability Due Diligence Directive, and Japan's guidelines for human rights due diligence.

² [Wage theft and pandemic profits: The right to a living wage for garment workers - Business & Human Rights Resource Centre \(business-humanrights.org\)](https://business-humanrights.org/en/wage-theft-and-pandemic-profits-the-right-to-a-living-wage-for-garment-workers)

³ [Wage theft and pandemic profits: The right to a living wage for garment workers - Business & Human Rights Resource Centre \(business-humanrights.org\)](https://business-humanrights.org/en/wage-theft-and-pandemic-profits-the-right-to-a-living-wage-for-garment-workers)

- **To tackle Uyghur forced labour, the U.S. imposed a ban on goods produced or manufactured wholly or in part from Xinjiang** under the Forced Labor Prevention Act. Similarly, Canada amended its Customs Tariff to prohibit the import of goods from Xinjiang, banning products directly or indirectly sourced from Chinese companies implicated in forced labour or other human rights violations in Xinjiang. The European Commission is proposing a ban on all products made with forced labour, with plans to destroy and remove products made with forced labour that have not reached end-users.⁴
- Since the enforcement of Norway's Transparency Act (July 2022), which legally obliges companies to respond to public requests for information related to their human rights risks and due diligence activities, **fast fashion retailers were the first companies to be asked to provide information on their supply chain risks and prevention and mitigation efforts.**

What are the key human rights risks in fast fashion?

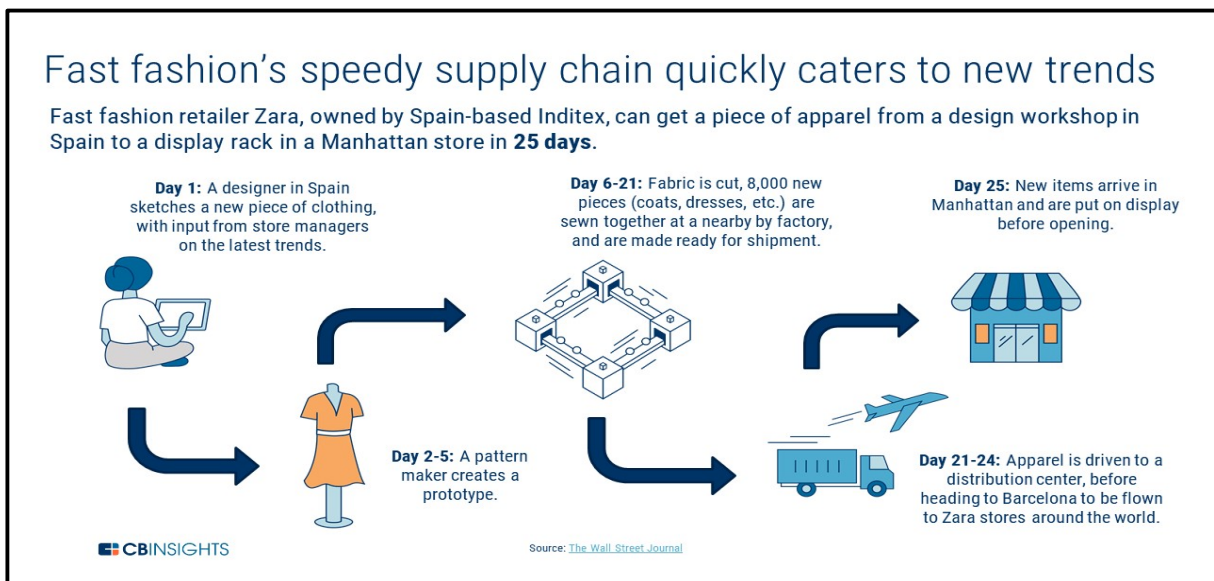


Source: Redwheel as at 28th February 2023. The information shown above is for illustrative purposes.

- Inherent and emerging human rights risks are found across the fast fashion value chain, from the extraction of raw materials, to the selling of products to end-users in retail shops:
 - **Tier n (raw materials):** While there are human rights risks associated with the raw materials used in accessories, for instance, health and safety concerns related to the production of aluminium used for zippers, **the more direct and severe human rights risks associated with the industry are linked to the production of fabrics, particularly cotton.**
 - **The most common form of human rights risks in cotton are health and safety.** Cotton workers often lack protective equipment and are exposed to heat stress.

⁴ [Commission moves to ban products made by forced labour \(europa.eu\)](https://ec.europa.eu/commission/presscorner/detail/en/ip23_100)

- **Cotton workers often face challenges accessing their rights to freedom of association and collective bargaining**, as most major cotton-producing countries are considered a hostile environment for workers' right to organise according to the International Trade Union Confederation.
 - **Child labour and forced labour are the most severe human rights risks in cotton production.** The U.S. government highlighted the use of forced labour or forced child labour in key West African producers including Cameroon, Mali, and Togo. Forced labour has been found in cotton production in Benin and Burkina Faso. Child labour is generally more prevalent in countries reliant on smallholder cotton farms than in mechanised farms.
 - Although there are significant improvements in reducing child labour practices in Uzbekistan through increased labour protection and global initiatives such as the Better Cotton Initiative, **there are emerging human rights risks in cotton producing countries such as China due to allegations of Uyghur forced labour and widespread human rights abuses in Myanmar.**
- **Tier 1, 2, and sub-contractor factories:** The human rights risks found in the production of components and the final assembly of fast fashion products in tier 1 suppliers are similar, though **it is likely that human rights risks in tier 2 factories and sub-contracted factories are more severe and prevalent due to the lack of transparency and oversight from buyers.**



Source: *The Wall Street Journal*, CBINsights, as at 2023. The information shown above is for illustrative purposes.

- **The risks of excessive overtime in fast fashion is driven by speedy production demands and low wages.** Factory workers typically work between 10 to 12 hours a day, with upwards of 16 to 18 hours during peak seasons. Even if workers are receiving at least minimum wage payments, the wages are significantly lower than the estimated living wage – for instance, the

monthly minimum wage in Cambodia is 192 USD versus 588 USD for a living wage.⁵

- Given the low wages, workers are generally more willing to take up overtime hours to support themselves and their families. Homeworkers that are contracted or sub-contracted by factories to meet production demands are more likely to have very low wages. Most sub-contracted garment workers earn less than US\$2.00 per hour in Ahmedabad, India and many earn less than US\$1.00 per hour in Lahore, Pakistan.⁶

Minimum wage in sourcing destinations are a fraction of the living wage



Data source: Business and Human Rights Resource Centre

Source: Redwheel/Business and Human Rights Resource Centre, 28th February 2023. The information shown above is for illustrative purposes.

- **Factories often use short-term or casual contracts to meet delivery times.** Workers reported taking on three-month contracts, sometimes for years on end, which can affect their ability to gain rights and benefits under collective bargaining agreements or labour laws.
- **The majority of fast fashion factories are located in countries with the most significant violations against workers' right to organise** including China, Bangladesh, Indonesia, the Philippines, Turkey, and Vietnam. There are accusations that garment factories used the pandemic as an excuse to target and dismiss unionised workers in Bangladesh, Cambodia, India, and Myanmar.
- Since the Tazreen and Rana Plaza disasters in Bangladesh, there are significant improvements in the health and safety records, particularly building and fire safety, in garment factories globally. However, **many garment workers have occupational health and safety risks** related to exposure to chemicals, dust and smoke inhalation, high temperatures and poor ventilation, noise, and musculoskeletal pain from repetitive motion as well as poor health and safety practices.

⁵ [Working hours and overtime: 96-hour workweeks — Clean Clothes Campaign / Wage theft and pandemic profits: The right to a living wage for garment workers - Business & Human Rights Resource Centre \(business-humanrights.org\)](#)

⁶ [Garment Workers | WIEGO](#)

Discrimination is prominent across fast fashion factories.

- Women workers face **occupational segregation** where they are concentrated in lower paid positions and under-represented in leadership positions. For instance, in Bangladesh, women make up at least 60% of the workforce but only take up 5% of supervisory roles.⁷ While women workers disproportionately encounter **sexual harassment** on factory floors and during their commute, men and women both experience verbal abuse due to the high-pressure environment and working culture that normalises harassment at work.
- There are reported cases of **pregnancy and maternity-related discrimination** including pregnancy screening during recruitment processes, dismissal upon pregnancy status, and unpaid maternity benefits. Due to the regular absence of independent and effective grievance mechanisms and poor worker representation, workers are unlikely to seek remedy.
- **Migrant workers are more vulnerable to human rights violations due to inadequate protection by labour laws** and consequently, are more at risk of poor working conditions related to poor living conditions, sexual harassment, and withholding wages.
- **Child labour continues to be an inherent and significant risk in the garment sector due to the demand for low-skilled workers, poverty, and the lack of educational opportunities** that encourages children to work to support themselves and their families across some emerging markets. A study on homeworkers involved in embroidery, tasselling, beadwork, and buttons in India found that one in five workers are under the age of 17, where two-thirds of the workers were out of school.⁸
- **Migrant workers and ethnic minorities are disproportionately at risk of working under forced labour conditions.**
- **In Malaysia, migrant workers from Bangladesh, Myanmar, Nepal, and Vietnam reported being in indebted labour through the payment of recruitment fees for employment.** During the pandemic, workers who were dismissed due to the reduction of orders were deported or in severe cases, sent to local employment to work to repay the debt owed.
- Multiple fast fashion companies including Abercrombie & Fitch, Adidas, Fast Retailing, Fila, GAP, H&M, Inditex, Jack & Jones, Lacoste, Nike, Puma, Ralph Lauren, Sketchers, and Victoria's Secret have **alleged links to suppliers using Uyghur forced labour through systemic state-sponsored labour transfer programmes.**⁹ Even if listed factories are not part of those companies' tier 1 suppliers, companies may be indirectly linked to Uyghur forced labour through their tier 2 suppliers.
 - **Transport and logistics:** Although transports and logistics are often considered an indirect supplier to fast fashion companies, **there are human rights risks in the sub-sectors of aviation, freight forwarding, railroads, trucking, and shipping:**

⁷ [More women take on supervisory roles in Bangladesh's garment sector \(dhakatribune.com\)](https://www.dhakatribune.com)

⁸ [Tainted Garments – Blum Center \(berkeley.edu\)](https://www.berkeley.edu)

⁹ [Press Release: 180+ Orgs Demand Apparel Brands End Complicity in Uyghur Forced Labour - Coalition to End Forced Labour in the Uyghur Region \(enduyghurforcedlabour.org\)](https://enduyghurforcedlabour.org)

- Due to the reliance on low-skilled labour and third-party recruitment agencies, **there is a risk of forced labour where workers are subjected to recruitment fees, working without appropriate visas, and may have their passport and wages withheld.**
 - **Workers in transport logistics often work long hours without adequate breaks and overtime compensation.** Workers may be on zero-hour contracts where they are not guaranteed working hours, access to social protection, or meet minimum wage requirements.
 - **As a male-dominated sector, there are reported cases of discrimination** including harassment, pay disparities, unfair treatment towards migrant workers and minority groups, and unfair hiring practices.
- **Retail:** There are human rights risks at the end of the fast fashion value chain affecting retail workers, particularly given the service-oriented type roles.
- Though the emergence of zero-hour contracts allows flexibility, **casual employment arrangements may not provide workers with income stability due to variations in pay.** Workers on zero-hour contracts may pay more taxes than workers on fixed hour contracts, particularly in the UK due to variances in weekly pay. **Workers on zero-hour contracts may have less access to workplace trainings, worker representation, and other benefits** than workers on fixed-term contracts.
 - Retail workers, particularly women and minorities who make up the majority of the workforce, can encounter violence and harassment due to low wages and power-imbalances both between management and workers and between workers and customer.

What are the key drivers of social issues in fast fashion and what can investors do?

Research from the International Labour Organisation, non-profit organisations, and academia highlight the drivers of the inherent and emerging human rights risks found in the fast fashion value chain. Through recognising the key drivers, investors can take practical steps to engage with portfolio companies to prevent, cease, and mitigate human rights impacts as summarised in the table below.

Driver	Impact	Investor Action
<p>Poor purchasing practices</p>	<p>Purchasing practices refer to how buyers engage suppliers including planning and forecasting, design and development, order placement, price negotiation and payment, managing purchasing processes (e.g. lead times), and exit strategies. Poor purchasing practices can exacerbate human rights violations in the supply chain:</p> <ul style="list-style-type: none"> • Contractual risks: 80% of suppliers were unable to provide severance payments to dismissed workers due to buyers abruptly ending a contract or failing to pay for an in-process contract.¹⁰ To respond to seasonal variation in orders, factories resort to using short-term contracts, sometimes beyond legal limits. Factories may also sub-contract work to another factory or home-based factories, further increasing precarity for workers. • Excessive overtime: Short lead times can prevent suppliers from planning production effectively – many suppliers noted that buyers are reducing lead times from more than 60 days to within a month. Consequently, 59% of suppliers shared that they increased overtime hours to meet peak orders.¹¹ As most suppliers work with multiple buyers to overcome the unpredictability in receiving orders, suppliers may overcommit to delivery plans despite potential labour or supply shortages. • Low wages: 29% of suppliers said that aggressive price negotiations with buyers that drive prices below production costs lead to difficulties in paying workers' wages.¹² In response, some suppliers manage by reducing labour costs through cutting wages, evading social security contributions, or failing to pay workers on time. 	<ul style="list-style-type: none"> • Encourage companies to adopt the recommendations set out by the 12 Sustainable Terms for Improved Purchasing Practices. • Encourage companies to train sourcing and design teams to raise awareness on the impact of purchasing practices and processes on human rights violations.

¹⁰ [The True Cost Of Brands Not Paying For Orders During The COVID-19 Crisis \(forbes.com\)](#)

¹¹ [WRD0419_reportcover_8.5x11_HIGHRES \(hrw.org\)](#)

¹² [Purchasing practices and factory-level noncompliances: How the available research can inform supply chain due diligence – Better Buying](#)

Driver	Impact	Investor Action
<p>Limited transparency and traceability</p>	<p>Buyers tend to have limited oversight of their supply chain beyond their direct tier 1 suppliers. As they rely on their tier 1 suppliers to disclose sub-contractors and upstream suppliers, buyers may encounter difficulties gaining visibility over the origins of components and raw materials. In turn, this affects buyers' ability to understand their human rights risks across their value chain. This is evident in the difficulties in validating or refuting claims of using Uyghur forced labour in cotton production.</p> <p>Some buyers rely on agents such as Li & Fung to help identify and manage suppliers in sourcing destinations where they have little local presence. As such, buyers rely on their agents to provide oversight over the reporting and management of human rights risks.</p> <p>Other complex supply chain relationships can further reduce transparency and traceability. For instance, Disney is a major licensor who works with suppliers through their licensees (e.g. a Mickey Mouse shirt sold by Uniqlo where Uniqlo holds the relationship with the supplier). Globally, Disney can have both direct and indirect suppliers, this includes business partners. Similarly, a retailer such as John Lewis may be selling products from multiple buyers and rely on their human rights policies and practices.</p>	<ul style="list-style-type: none"> • Advise companies to map their supply chains beyond tier 1, including building the capacity of tier 1 suppliers to track their own suppliers. • Follow-up with companies that have alleged human rights violations. Ask companies to validate to check for direct and indirect linkages to tier 2+ suppliers with violations. • Encourage companies that work with agents or are licensors and/or retailers to set up mandatory minimum expectations on human rights for all business relationships. • Work with other investors to encourage companies to openly and transparently discuss human rights risks across its value chain for continuous improvement.
<p>Limited leverage</p>	<p>Buyers can have reduced leverage in a licensor-licensee, retailer, or buyer-agent-supplier relationships. However, even for direct tier 1 suppliers, buyers may have limited leverage to promote better working conditions depending on their relationship with the supplier (e.g. years of business, criticality/strategic suppliers, share of a supplier's total production).</p>	<ul style="list-style-type: none"> • Engage companies to work collectively with other buyers to influence suppliers where they have limited leverage. • Encourage companies to enrol in voluntary programmes such as Better Work, Ethical Trading Initiative, Fairwear Foundation, Fair Labor Association, or otherwise.
<p>Weak legislation</p>	<p>Robust legislation respecting human rights and labour rights and strong labour inspectorate oversight can mitigate some of the inherent and emerging risks in fast fashion. Where companies operate in geographies with weak legislation, whether in their direct or indirect operations, they may face more frequent and severe human rights risks. For instance, Uyghur forced labour is driven by government-led labour transfer programmes.</p>	<ul style="list-style-type: none"> • Encourage companies to adopt international human rights and core ILO Conventions in countries with weak legislation. • Encourage companies to provide incentives for suppliers to adopt these standards through incorporating ESG/human rights factors into supplier

Driver	Impact	Investor Action
		scorecards and/or performance evaluation. <ul style="list-style-type: none"> • Encourage companies to provide training and capacity-building for suppliers on human rights in conjunction with other technical trainings.

Source: Redwheel, as at 28th February 2023. The information shown above is for illustrative purposes.

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