

# H&M's decision to continue sourcing from Myanmar – a military dictatorship with no freedom of association - threatens its ESG record.

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## A good ESG record – threatened by its relations in Myanmar

H&M has a decent ESG record, particularly on social and governance issues. The company has set important precedents for the garment and textile industry by upholding freedom of association in supplier factories and contributing to workers' health and safety:

- **H&M was the first company to sign the legally binding Accord on Fire and Building Safety in Bangladesh, created after the Rana Plaza collapse ten years ago. The Accord has facilitated 56,000 safety inspections at 2,400 factories and corrected 140,000 instances. Now named the International Accord, the agreement has begun similar work in Pakistan.**
- **H&M intervened with the Bangladeshi government and garment employers' association after 35 trade unionists were arrested in December 2016, helping to secure their release and the dropping of charges.**
- **H&M has Global Framework Agreements with the global unions IndustriALL and UNI, which outline the company's commitment to upholding international labour and safety standards in its supply chain. In practice, these agreements have been used to challenge union-busting in supplier factories and find remedy for workers' rights violations.**
- **H&M is a founding member of the ACT on Living Wages initiative, a multi-stakeholder programme facilitated by global unions and brands to achieve living wages in textile and garment supplier countries.**
- **H&M is one of nine brands participating in the pilot Bangladesh Employment Injury Scheme.**

H&M's position as a responsible business has helped improve the industry for all stakeholders.

## Sourcing from Myanmar threatens H&M's ESG record

Despite global calls for disinvestment from Myanmar, which many industry peers have adhered to, H&M recently confirmed that it intends to continue sourcing from that country.

This decision threatens H&M's record and marks a disturbing departure from the company's usual responsible business practice.

Investors should be concerned by this sudden departure, which sends a worrying signal that the company is wavering on its human rights commitments. H&M has built its ESG reputation over years, but this can be lost with investors, customers and others very quickly.

H&M's motivation for maintaining its presence in Myanmar is a business one: the military dictatorship has suppressed labour costs and worker activism, with workers being paid US\$1.68 per day, often working unpaid, compulsory overtime. This wage suppression makes Myanmar a very cheap country to source from.

## The situation in Myanmar

Since the military coup in February 2021, 3,400 people have been killed, more than 21,000 arrested, and almost two million have been internally displaced<sup>1</sup>. The country has descended into civil war, with the military regime conducting more than 600 airstrikes against civilian targets, including an attack on Pa Zi Gyi village<sup>2</sup> on 11 April 2023 that killed 168 people.

Myanmar is a military dictatorship with no freedom of association. Shortly after the coup, 16 trade union organizations, representing almost the entire Myanmar labour movement, were banned. Their leaders and members have been killed, arrested, driven into hiding and exile, had their passports cancelled, and have been fired and blacklisted from employment. The regime has also banned 40 political parties ahead of scheduled elections which are planned to give the regime legitimacy.

Factory owners work with the military to suppress worker activism, giving names, addresses and photos of trade union members to the security forces. Workers pass through military checkpoints, where their phones are checked for pro-union or anti-regime messages. Employers have called the military to break up protests by workers.

<sup>1</sup> Assistance Association for Political Prisoners (Burma), accessed at <https://aappb.org/>.

<sup>2</sup> The Guardian, Myanmar airstrike on civilians sparks global outcry as witnesses describe attack, accessed at <https://www.theguardian.com/world/2023/apr/12/myanmar-airstrike-on-civilians-sparks-global-outcry-as-witnesses-describe-attack>.

After the coup, factories cancelled collective agreements and fired workers, rehiring them as day labourers for a rate of US\$1.68 per day – very far from a living wage. To earn even this amount, workers endure unpaid, compulsory overtime, rising production targets, and fines for missing work.

## Ethical Trading Initiative report

H&M is a member of the Ethical Trading Initiative. After the coup, the ETI commissioned and paid for research and recommendations on responsible business conduct in the country. The ETI report<sup>3</sup> found that due diligence is not possible in Myanmar because freedom of association has been curtailed by the banning of trade unions and the repression of activists. Without independent workers' voices, it is not possible to verify what's happening on the ground and remedy abuses.

Despite being part of the group that commissioned and funded this research, H&M has chosen to ignore the conclusions.

As the ETI report shows, due diligence is not possible in a military dictatorship. The Myanmar Centre for Responsible Business closed its office in Myanmar<sup>4</sup> because it is not possible to operate in the country. There are no local partners on the ground, no independent workers' representatives, and internal grievance mechanisms have collapsed. Instead of unions, some factories have created "workers' coordinating committees", with "workers' representatives" approved by the employer and vetted by the military to give the appearance of freedom of association.

## There are numerous violations at H&M suppliers

Since the coup, the Business and Human Rights Resource Centre has tracked violations of workers' rights in Myanmar<sup>5</sup>. The project has documented more than 200 cases of alleged labour and human rights abuses perpetrated against at least 104,000 garment workers, revealing widespread and systemic abuse in international brands' supply

chains. The workers affected by allegations recorded so far are employed at 117 factories producing for global fashion brands, including H&M.

## Other brands are leaving

Widespread abuses in supplier factories have led many other garment brands to stop sourcing from Myanmar or commit to a responsible exit strategy, including Inditex (Zara), Fast Retail (Uniqlo), Marks & Spencer, Primark, C&A and Tchibo.

However, due to its size, H&M's refusal to exit undermines the principled stance taken by its competitors.

## The military needs the garment industry for foreign exchange

The garment industry brought in US\$4.7 billion in foreign exchange in the past year<sup>6</sup>. The military needs foreign exchange to buy weapons, energy and other commodities. The regime is desperately short of foreign exchange, and recently an LNG ship that was commissioned to provide electricity left Myanmar because of non-payment.

In April 2022, the junta changed the law, making it illegal to hold foreign exchange for more than 24 hours. Foreign exchange has to be changed into the local currency, kyat, at a preferential rate. The junta controls the central bank, which means they can issue kyat and change it into dollars. Any foreign exchange that enters Myanmar helps to sustain the regime.

Unions estimate that of the US\$4.7 billion, only about 7% went to pay the salaries of Myanmar's 450,000 garment workers. These workers earn US\$1.68 per day, which is below the poverty wage. Whatever reason H&M gives for staying in Myanmar, it risks being complicit in egregious human rights violations.

<sup>3</sup> Ethical Trading Initiative, Myanmar enhanced due diligence sectoral assessment, accessed at <https://www.ethicaltrade.org/programmes/garments-myanmar>.

<sup>4</sup> MCRB, Statement by the Board of Myanmar Centre for Responsible Business, accessed at <https://www.myanmar-responsiblebusiness.org/news/closure-yangon-branch.html>.

<sup>5</sup> Business and Human Rights Centre Myanmar garment worker allegations tracker, accessed at <https://www.business-humanrights.org/en/big-issues/labour-rights/myanmar-garment-worker-allegations-tracker/>.

<sup>6</sup> Ministry of Information, CMP garment export brings in over US\$4.7 bln in 11 months of this FY, accessed at [https://myanmar.gov.mm/web/guest/news-media/news/latest-news/-/asset\\_publisher/idasset354/content/cmp-garment-export-brings-in-over-4.7-bl-in-11-months-of-this-fy](https://myanmar.gov.mm/web/guest/news-media/news/latest-news/-/asset_publisher/idasset354/content/cmp-garment-export-brings-in-over-4.7-bl-in-11-months-of-this-fy).

## Workers' representatives in Myanmar want H&M to leave

The Myanmar Labor Alliance (MLA), which includes the biggest and most representative trade unions, has called for all international companies to cease doing business in Myanmar since May 2021. The most representative union of garment workers, the Industrial Workers' Federation of Myanmar (IWF), is a member of both the Confederation of Trade Unions, Myanmar and the MLA. The IWF has met with H&M, and other garment brands, on many occasions to urge them to leave the country.



- IWF president Khaing Zar Aung says:

**“Workers have suffered terribly since the coup. Many lost their jobs, and those who are still working earn poverty wages in terrible conditions. The only way to end the suffering of the people of Myanmar, including workers in the garment factories, is to bring down this regime and restore democracy.**

**“There is no way to work with the regime without making the situation worse.**

**“Maintaining business in Myanmar helps the military regime. It helps the regime economically, by providing the foreign exchange it needs to buy weapons and ammunition to kill its people. It helps the regime politically and diplomatically, by creating the illusion that business as usual is possible. This regime must be isolated, not normalized.**

### Questions for investors

H&M may be bringing risk (legal, operational, reputational) to itself and therefore its shareholders. We urge investors to ask the company the following questions:

- 1 How can H&M ensure due diligence of its supply chain when reliable sources conclude that this is impossible?
- 2 When workers themselves have asked H&M - and all brands - to leave Myanmar, how can the company claim to be involved in meaningful engagement, as called for by the UN Guiding Principles on Business and Human Rights?
- 3 How does H&M respond to the claim that foreign exchange earned from garment exports helps the regime buy weapons and ammunition?