



Dear Ms. Anannya Bhattacharjee,

Thank you for your letter of October 23rd 2009 that was forwarded to us by the German Clean Clothes Campaign. We would like to answer as follows:

General Statement

Legal minimum wages in Asia, specifically in Bangladesh, currently fail to assure a decent standard of living for employees and their dependents. We therefore appreciate the move of the Asia Floorwage Campaign to put this topic onto the international political agenda. We would greatly welcome if AFW succeeded in triggering the multi-stakeholder process necessary to reach the goal of living wages. This must bring together governments, international governmental organisations, suppliers, business associations, international trade companies and international brands and retailers as well as trade unions and non-governmental organisations. Tchibo is willing to take part in such a process and enter into dialogue with the Asia Floorwage Campaign.

National law sets the legal framework for wages and ensures that there is an equal level playing field for all companies regardless of their product line or consumer target group. National legislation is also the benchmark against which brands and retailers can viably assess their suppliers. It is therefore imperative that all lobbying activities focus on aligning legal minimum wages with a living wage standard. The exact amount needs to be determined in a collective bargaining process between all local stakeholders. Only then will it be ensured that the defined wage levels are implemented in a pre-competitive environment and respected by all parties.

Increased wages in the amount suggested by the AFW will lead to higher product prices along the different steps of the supply chain, unless suppliers improve with regard to productivity, quality and creativity and/or unless buyers are able to generate efficiencies within their own supply chains. Otherwise, this might have implications for the competitiveness of individual sourcing markets, most notably Bangladesh.

Wages have to rise quickly and considerably in Bangladesh out of humanitarian reasons. At the same time, the country already today has difficulties to compete with other sourcing markets. China, for example, sells a broader variety of products and has achieved much higher productivity and quality despite (or maybe because of) considerably higher wages.

It is important, that clear strategies are developed and holistic tools applied to ensure that the effect of rising prices is absorbed and especially vulnerable countries can remain competitive.



Activities of Tchibo GmbH so far

Against the backdrop of the larger political and economic setting, Tchibo is taking influence and playing a role in the following activities:

1. Macro-engagement

Tchibo is a member of the Advisory Board of Social Accountability International (SAI) and takes part in its Corporate Involvement Program (CIP). For those suppliers striving for SA8000 certification, ensuring a living wage is already a basic standard requirement and indispensable for certification.

Since not all of the suppliers can be SA8000 certified in the short term, Tchibo also looks for further political and operational channels to promote a living wage. Tchibo engages in the MFA Forum and the Bangladesh Buyers' group where the topic of living wages is on the agenda. We are also participating in the buyer led initiative which will be publicly appealing to the Bangladeshi government to increase wages and install a yearly review of legal minimum wages to ensure a decent standard of living.

2. Micro-engagement: Development of tools for ensuring living wages and competitiveness

Next to our engagement described before, Tchibo is also working to create measurable, quick results in its supply chain. Together with the GTZ (*Deutsche Gesellschaft für Technische Zusammenarbeit*) we are piloting a dialogue-based approach to build the capacity of factories (employees, managers and employee representatives) to jointly develop solutions for all aspects of social standards and production issues. The WE project also encompasses intensive capacity building of local trainers who are enabled to moderate the necessary dialogue processes.

The WE project (www.we-socialquality.com) is just reaching its final pilot-stage and we see a considerable impact for our suppliers' employees, most notably with regard to higher wages, less working hours, and enhanced worker participation. At the same time, the pilot suppliers have been able to maintain and even increase their productivity and profit margins.

Since we recognize that we as a company also have an impact on labour standards through our sourcing practices, our responsible company representatives (e.g. buyers) also take part in the training activities. This helps us align our supply chain management with social (and environmental) principles.



The WE approach, in our opinion, helps realize living wages in a sustainable manner, as it creates win-win situations between social and economic requirements. From 2010 onwards we will be rolling out the training approach into our entire supply chain. Also we would like to achieve worldwide upscaling by involving interested brands, retailers and further stakeholders.

We will be happy to provide more detailed information on the WE project and discuss opportunities for collaboration and upscaling.

3. Conclusion

Tchibo is willing to be engaged in all further relevant initiatives which promote the payment of a living wage in a sustainable manner. This especially refers to the Asia Floorwage Campaign provided that this international approach will...

- be multi-stakeholder driven, thereby ensuring implementation by all parties,
- respect national and international antitrust laws,
- enhance the core labour right of freedom of association and the right to collective bargaining,
- set the living wage as a legal obligation in the supply chains worldwide, thereby ensuring that...
 - o an equal level playing field is provided for all supply chain partners, and that
 - o competitive distortions leading to market exclusion of single businesses, nationally and/ or internationally are prevented.

Dear Ms. Anannya Bhattacharjee, we would appreciate your response on how the AFW program will ensure that these decisive aspects are taken into consideration.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Achim Lohrie'.

Achim Lohrie
Head of Corporate Responsibility
Tchibo GmbH