



RISK REPORT

SHORT VERSION

BayCity
Textilhandels GmbH

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TABLE OF CONTENTS

1.	Corporate-related risks	- 1 -
	PURCHASING PRACTICE RISKS	- 1 -
2.	Country-specific risks	- 1 -
3.	Social and environmental risks	- 3 -
	CODE OF CONDUCT	- 3 -
	SYSTEMATIC PRIORITIZATION OF THE RISKS	- 4 -
	RISK EVALUATION	- 5 -
4.	Product risk assessment	- 9 -
	SUPPLIER SELECTION / PRODUCTION SITE	- 9 -
	PROCESS SUPPLIER SELECTION - BUSINESS INITIATION	- 9 -
	MATERIAL-RELATED RISK ASSESSMENT / CHEMICAL-RELATED RISK ASSESSMENT	- 9 -
	MATERIAL-RELATED RISK ASSESSMENT	- 9 -
	CHEMICAL-RELATED RISK ASSESSMENT	- 10 -
	SYSTEMATIC POLLUTANT ANALYSIS	- 10 -
	HANDLING OF TEXTILES FROM ANIMAL ORIGIN	- 11 -

1. Corporate-related risks

As an economic actor we are aware of our social & environmental responsibilities and therefore firmly implemented corresponding measures in our daily activities, both strategically and operationally. For this purpose we identified potential risks and possibly vulnerable groups that may arise along our entire value chain. Furthermore as part of our risk management we already defined a number of mechanisms and processes to ensure rapid and targeted communication, both internally and externally, should the need arise.

Purchasing practice risks

The purchasing practices derived from our business model are holding risks in terms of possible human rights violations by considering the entire value chain based on the division of labor, i.e. our direct business partners (TIER 1) on the one hand, and the indirect business partners in the upstream processes (TIER 2/3) with whom we do not have direct business relationships on the other.

In particular, the following risks can arise in our purchasing practices with our direct business partners and the active influence we exert as a result:

- Price specifications
- Delivery date specifications
- Inadequate and poor working conditions
- Production-related use of chemicals
- Impact of process-shared production on the environment

2. Country-specific risks

In order to gain a better awareness of possible human rights violations and to be able to react appropriately if necessary we have intensively studied the country-specific risks. While many of the risks can be found in several production countries, others occur only in isolated cases.

China, for example, is known for its **migrant workers** who, living outside their home province, are not entitled to health care and social benefits and are often forced to work overtime.

A problem that can also be found in various sourcing countries but in different forms is the issue of **forced labor**. While this is frequently mentioned in China in connection with intimidation and other forms of abuse of ethnic minorities such as the Uyghur Muslims, forced labor is widespread in the form of the "Sumangali system" in India.

Furthermore, reports repeatedly mention the problem of **discrimination**. **Vulnerable groups** such as national and international migrants, lesbian, gay, bisexual, transsexual, transgender, queer, intersexual and asexual people, and homeworkers are mentioned. **Discrimination against women** also remains across all countries. They generally earn lower wages than men in similar positions and are subject to harassment and verbal or physical abuse in the workplace.

In times of pandemic, the risk of harassment against women in the garment industry has been increased once again, as the power imbalance between the predominantly male managers and supervisors and female workers is worsened by female workers' fears of losing their jobs in the pandemic. The potential risk for sexual harassment increases, as female workers may feel unable to refuse unwanted sexual advances for fear of possible workplace reprisals (including loss of employment) due to rejection. Female migrant workers are particularly at risk of sexual harassment during the pandemic. Furthermore pregnant women often face dismissal.

Discrimination against ethnic minorities, such as the Rohingyas in Myanmar is also widespread. In 2021, a military coup in Myanmar led to the arrest of 4,000 protesters and the deaths of hundreds of people in violent incidents. One year later, the situation in the country remains tense. Cases of violations of the law and violence are reported to have been rising steadily since February 2022.

Occupational health and safety is still a serious issue in manufacturing plants. On the one hand the health effects of overtime and poor working conditions such as poorly ventilated workplaces are pointed out in this context. On the other hand the **factory fires and building collapses** of the past have not yet been forgotten, not least because incidents occur again and again especially in the **upstream production stages**.

At this point, the risk of **illegal subcontracting** should be mentioned which makes it more difficult to control working conditions and results in dangerous situations remaining unnoticed. Problems such as the hiring of **child laborers** are shifted to the lower production stages or to the **home workplace**.

Environmental risks should not be ignored either. China and Pakistan are mentioned in the reports as countries with the highest levels of **air pollution** in the world, and the pollution of water through the use of chemicals e.g. in the dyeing processes is another problem for the population. In addition the health **effects of chemicals** on the workers involved in the wet processes should be mentioned.

All in all it should be noted that corruption plays a major role, particularly in the Asian procurement markets. At the same time, **freedom of association** in the countries is either non-existent or only partially implemented. While China has not signed the ILO Conventions on Trade Union Formation and Collective Bargaining, the right to bargain collectively without interference is not effectively enforced in Bangladesh. In addition workers may be impeded from participating in strikes or punished for participating.

Although neither Ukraine nor its neighbouring countries are part of our procurement markets, we also have been watching developments in the country with concern since the start of the military conflict in February 2022.

3. Social and environmental risks

Code of conduct

As part of our membership, our company's Code of Conduct is based on the requirements of the amfori BSCI industry initiative. This means that the most important international labor standards for the protection of workers' rights are implemented, such as the conventions and declarations of the International Labor Organization (ILO), the United Nations (UN) Guiding Principles on Business and Human Rights and the Guidelines for Multinational Enterprises of the Organization for Economic Cooperation and Development (OECD).

It also means that we apply our human rights and environmental due diligence to our business partners and also identify and prioritize potential and actual negative impacts of business activities on people and the environment. The challenge is to develop textile manufacturing in such a way that social requirements at the workplace and environmental sustainability in the processes (garment manufacturing and wet processes) can be ensured.

Regular audits, as well as occasional unannounced inspections of supplier standards by our colleagues on site, enable us to identify and mitigate the effects of our business activities at an early stage.

The following **social risks** can occur at the confection level:

- A general global pressure on prices can lead to **low wages** in production facilities, but also to **excessive overtime**. This results in considerable health risks for the workers;
- any forced overtime may be considered **forced labor**;
- non-existent **collective bargaining** and **freedom of association** severely restrict orderly negotiations over wages and working conditions;
- **Women** are **discriminated** against in several ways. Sexual harassment by superiors, but also equality between men and women is often ignored;
- **Child labor** can be ruled out with a very high degree of certainty in the clothing factories directly connected with us.

Serious **ecological risks** occur in the wet processes:

- dyeing and printing processes use a large number of **chemical substances** that can be very harmful to people and the environment;
- Very **high water consumption**, but also **inadequate treatment of wastewater and sewage sludge residues**, leads to health hazards for humans and the environment.

Systematic prioritization of the risks

In order to identify and prioritize any risks that may arise in our production countries, we looked at the various "Performance Areas" from an amfori BSCI report as a basis. From the 13 available areas, we systematically defined 11 areas that are relevant for us:

- Child Labour
- Special Protection for Young workers
- No bonded labour
- No discrimination
- Fair remuneration
- Decent working hours
- Occupational health and safety
- Right of freedom of association and collective bargaining
- No precarious employment
- Ethical business behaviour
- Protection of the Environment

As the topic „Protection of the Environment“ is having high relevance for our products and related production processes, we have decided to include this topic in our risk matrix as well - even though we have already implemented extensive and preventive measures to minimize the probability of negative impacts occurring.

Risk evaluation

In order to be able to draw up a structured analysis of the risks that may arise in the factories, the results of the individual findings from the BSCI reports of the factories in our supplier pool are compiled and evaluated in a database. This method which is regularly updated by us enables us to look at the risks at different levels:

- How many results are there in general per performance area?
- In which countries are specific subject areas particularly present?
- Which individual results stand out from the topic areas per country?

This detailed presentation enables us to take targeted measures to prevent or mitigate any negative impact.

In our matrix, we have defined the most conspicuous and prioritized topics with a high probability of occurrence and medium severity of damage. Accordingly our current risk analysis

shows that the area of "Occupational Health and Safety" has the highest number of non-compliances in all production countries:

- Bangladesh - 154 results in total from 27 suppliers
- China - 63 results in total from 11 suppliers

Particularly noteworthy is the lack of education of employees regarding the use of "Personal Protection Equipment (PPE)". In addition to improper use, some workers do not receive any protection equipment at all from their employers. In this case, it is necessary to talk to the management and point out that the issue of protective equipment is mandatory. Furthermore, trainings/workshops help to make clear how elementary protective equipment can be for the safety of the employees and the company.

The "fair remuneration" area covers another strong risk component:

- Bangladesh - 33 results in total from 27 suppliers
- China - 19 results in total from 11 suppliers

It is striking that many factories in China fail to offer or pay for additional social benefits that are required by law (e.g. insurance).

In this case, there may be different reasons why the result was rated as negative. On the one hand it is possible that the company deliberately did not pay the insurance but it is also possible that workers already have their own insurance or do not want to stay permanently with the company and that they will not be reimbursed for the contributions they have paid in when they change the job. In this case we refer to the local legislation. The company must obtain written confirmation of the workers' own insurance and explain to the workers that the prescribed insurance is regulated by law.

The third area of concern from our matrix above relates to "Decent Working Hours":

- Bangladesh - 22 results in total from 27 suppliers
- China - 12 results in total from 11 suppliers

Here, too, there are particular anomalies among producers in China and in Bangladesh. In most cases, too much overtime is worked and the legally permitted number of overtime hours is exceeded. It shows that many companies do not have a functioning system that records and controls working hours, thus the employees do not always have to work voluntary and paid overtime. In order to guarantee a correct recording of the working hours, it is recommended to the companies to introduce a functioning system (technical or manual variant) which represents the corresponding overtime hours. Furthermore it must be ensured that valid data is passed on and processed internally so that the credibility of the company is guaranteed and the employees are paid according to their work performance.

In addition to the possible direct employer abuses regarding overtime there are also known cases in which employees willingly accept the fulfillment of extra-legal working hours in order to increase their basic income.

Furthermore production planning can have gaps making it impossible to create strategically meaningful capacity planning. The result of this is unnecessary overtime which in some cases is not compensated accordingly (payment and/or additional days off).

Based on our experiences, an insufficient production capacity planning or an unforeseen overbooking of suppliers is not always compensated by overtime working. In these cases, it might also happen that so far unknown suppliers are used, which eventually do not meet our social and environmental requirements. Therefore we see the necessity to assign a medium level to the topic of "Ethical Behavior" in terms of probability of occurrence as well as severity of damage and consequently putting a greater focus during our daily operations and implementing respective measures into our processes.

Due to the previous pandemic and the newly resulted circumstances associated, we have also decided to assign a higher priority to the topic of "No Discrimination" in terms of probability of occurrence rating in order to draw a higher attention to the vulnerable groups. Detailed points on the topic of discrimination are listed country-specifically in Appendix I.

We still do not see any particular anomalies in the specific areas of child labor and non-bonded labor. Though both topics are generally high-risk issues with a low probability of occurrence,

nevertheless need to be continuously under our special observation in order to initiate necessary actions - including preventive measures – in case of occurrence and for avoiding a negative impact.

Herewith in contrast we have reduced the severity's rating of the "Special Protection for Young Workers" issue because the risks and negative impacts that might occur can be already quite effectively influenced by efficient measurements.

In addition to specific measures for the individual prioritized risk areas, there are other instruments that we derive according to the discrepancies found:

- Reference to local legislation
- Conduct trainings by local staff to address specific issues
- Presentation of "Best-Practice" examples, which can serve as orientation
- Invitation to workshops and/or webinars (in local language) offered by different organizations (e.g. amfori BSCI))

We can infer further actual risks from regular inspection reports and existing mechanisms (e.g. the submission of complaints) from local organizations (e.g. Accord on Fire and Building Safety in Bangladesh). The resulting requirements in the areas of fire, electricity, and structure have already been improved and corrected to a large extent since 2013. At regular intervals, the action catalog of the inspections is reviewed and updated. For example, the pilot project "Boiler Safety" was further expanded to reduce the risk of a boiler explosion (due to non-compliance with maintenance requirements).

The Accord's complaints mechanism in Bangladesh has had a particularly positive impact. Compared to 2019 (751 complaints) in 2020 824 complaints of the workers in the factories were submitted to the Accord by workers in the factories. It shows clearly that the system is accepted by the workers and the workers are sensitized by the Accord staff for this process. Out of a total of 2,731 complaints filed, over 1,200 have been resolved and about 150 are still being processed, whereas other complaints do not fall other complaints do not fall with-in Accord's remit or have been withdrawn.

We were confronted with an unexpected challenge in 2020 due to the global outbreak of the Corona pandemic. In order to support our partner companies, especially in Bangladesh, we implemented an efficient Corona relief project for some suppliers within the framework of a DEG financing project to ensure the safety and health of the workers.

4. Product risk assessment

Supplier selection / production site

Process supplier selection - business initiation

The selection and acceptance of a supplier requires an extensive examination through discussions, meetings, on-site inspections and the examination of documents. Only after successful examination ("business initiation") the process of "business start-up" begins.

Before a supplier can be included in our supplier pool, an initial physical inspection by the local CSR team is required in addition to the submission of legally required documents and evidence. The inspection results in a first so-called internal "Factory Assessment Report" which forms the basis for further discussions between the factory management, the office management and its responsible team.

Material-related risk assessment / Chemical-related risk assessment

Material-related risk assessment

The production of clothing products is only possible through the use of diverse resources. It also involves certain risks at various stages of production.

Due to technical progress, many operations are now carried out by machines. However, the human being is still the central factor in the very labor-intensive processes, especially in the sewing department.

Therefore resource-conserving development and the protection of people, animals and the environment are top priorities for us. In order to cover the existing risks in a global procurement market as securely as possible, we use selected and credible seals (see table below) when selecting materials and manufacturing and in addition continuously develop our products at all levels.

Chemical-related risk assessment

To protect people and the environment we follow our own strict chemical regulations in form of binding preliminary lists such as a product-related "Restricted Substances List" (RSL) and a "Manufacturing Restricted Substances List" (MRSL) for the production process.

The MRSL is based on the standards of the Zero Discharge of the Hazardous Chemicals (ZDHC) initiative as well as strict requirements such as the Global Organic Textile Standard (GOTS) and Made in Green by OEKO-TEX.

Furthermore we exclude working steps that are hazardous to health, such as the sandblasting of denim articles ("sandblasting") which can cause the risk of the so-called "dust lung" due to the absorption of small micro particles via the respiratory tract and evaluate alternative processes within the framework of the GOTS specifications, which are necessary due to the phasing out of the chemical potassium permanganate ("PP spray") that is still frequently used for the partial brightening of denim fabrics.

Compliance with the so-called "DETOX" requirements, defined by Greenpeace as an international non-governmental organization (NGO) is achieved through regular wastewater and sludge testing via accredited testing laboratories in our partner factories with wet processes. The results are discussed with the suppliers and improvement measures are agreed upon.

Systematic pollutant analysis

In addition to the sustainability standards according to material groups mentioned on the previous pages, we also follow basic customer-specific textile-physical and textile-chemical tests

and specifications. The tests are carried out worldwide and exclusively at accredited laboratories.

Handling of textiles from animal origin

Animal welfare is also an unchanging pillar in our risk assessment. We ensure strict specifications for product development and production.

The use of down and feathers is currently not yet completely excluded, but is subject to very strict qualitative and ethical requirements such as the exclusion of live plucking and the prohibition of force-feeding. We ensure this, among other things, through our certification according to the "Responsible Down Standard" (RDS).

The use of animal fibers, the extraction of which is viewed critically, is carried out in compliance with international animal welfare standards. When shearing merino sheep in Australia, we observe the prohibition of "mulesing", a highly criticized preventive measure against infestation by flies ("Sheep Blowfly"). For other animal fibers such as hides, skins, furs or angora, we use imitations (furs) or do not use them at all (angora).

However, we have not yet been able to adequately hedge one known risk: In the extraction and production of leather (hides, skins) there are significant risks to people and the environment due to the use and handling of tannic acids and critical chemicals.

Although this product group accounts for a very small proportion of total products we will demand stricter requirements here in the future such as chrome-free tanning, and define and communicate safety regulations based on the recommendations of the Leather Working Group (www.leatherworkinggroup.com/) as guidelines.

The measures listed in this risk report have been drawn up to the best of our knowledge and based on current information. They are reviewed on an ongoing basis and updated where necessary.



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