



2005 Annual Public Report

FAIR LABOR ASSOCIATION'S 2005 ANNUAL PUBLIC REPORT

Executive Summary

The Fair Labor Association (FLA) is a multi-stakeholder initiative that promotes international labor standards and provides an unprecedented level of detailed reporting on companies' efforts to improve workplaces.

The 2005 Annual Public Report is the third Annual Public Report published by the FLA. It provides the public with an impartial, in-depth view into the actions of 28 companies during 2004 to improve working conditions in the roughly 3,800 factories where they produce around the world. The 2005 Annual Public Report, together with the FLA Tracking Charts – which are detailed reports from FLA unannounced monitoring visits to FLA company supplier factories – provide macro- and micro-level views of companies' labor compliance activities and represent the most comprehensive body of independent reporting published to date on companies' efforts to promote adherence to international labor standards. By reading about a company's labor compliance program and perusing its factory monitoring reports, concerned consumers or shareholders can gain valuable perspective into a company's approach to improving factory conditions.

The FLA 2005 Annual Public Report differs from other reports in that it includes a wide range of companies – large and small, with diverse suppliers producing goods ranging from apparel and footwear to class rings and imprinted logoed checks. It strives to report on their activities in an objective and consistent manner.

The 2005 Annual Public Report includes:

- Foreword by Mary Robinson, a former UN Commissioner for Human Rights and former President of Ireland
- Updated progress reports on companies' labor compliance programs for
 - 15 Participating Companies, an increase of 50% over last year
 - 13 Category B University Licensees
- Accreditation reports of six company labor compliance programs
- An overview of the FLA's findings from its independent external monitoring (IEM) visits to companies' supplier factories around the world
- Case studies of third party complaints submitted to the FLA during 2004–2005
- Highlights of FLA Special Projects
- A feature report on the impact of the MFA phase-out on global labor standards, with particular focus on labor rights in China.

Please access the FLA's website, <http://www.fairlabor.org/2005report>, to read the entire 2005 Annual Public Report. The FLA detailed reports on its independent external monitoring visits on a factory-by-factory basis, called FLA tracking charts, can be found at <http://www.fairlabor.org/all/transparency/reports.html>.

Highlights of Main Sections

Compliance Programs of FLA-Affiliated Companies

The 2005 Annual Public Report provides detailed reports on the efforts of 28 companies during 2004 to improve the working conditions of factories where they produce around the world. FLA-affiliated companies agree to adopt the FLA Workplace Code of Conduct, which is based on the core labor standards of the International Labor Organization (ILO), in the manufacture of their products as a condition for participating in the FLA. Participation in the FLA also requires companies to establish an internal compliance program throughout their supply chains. This includes internal monitoring and remediation of instances of noncompliance, and various activities to ensure that the Code is implemented.

In the 2005 Annual Public Report, individual company reports are arranged in two categories, Participating Companies and Category B University Licensees. The structure for each category differs slightly, reflecting differences in FLA requirements. Every report provides:

- An overview of the company -- its size, applicable brands, the number and location of facilities, and monitoring visits;
- A description of the staff and program responsible for promoting the FLA Code of Conduct; and
- Specific program activities outlining the company's particular approach to labor compliance and, in some cases, developments in the company's program since the previous FLA Annual Public Report.

Participating Company reports also include:

- A summary of FLA independent external monitoring in factories where a company produces; and
- Accreditation reports of the compliance programs of six Participating Companies.

Participating Companies commit to implement the FLA Code of Conduct in factories *throughout their supply chains*. All fifteen companies in this category included in the report are apparel and footwear companies or retailers with their own-label apparel. They range in size from major publicly traded multinational companies to small, private companies. The Participating Companies included in the 2005 Annual Public Report are:

- 1) adidas-Salomon
- 2) Eddie Bauer
- 3) GEAR For Sports
- 4) Gildan Activewear
- 5) Liz Claiborne
- 6) New Era Cap
- 7) Nike
- 8) Nordstrom
- 9) Outdoor Cap
- 10) Patagonia
- 11) Phillips-Van Heusen
- 12) PUMA
- 13) Reebok
- 14) Top of the World
- 15) Zephyr-Graf-X

In 2004, six Participating Companies (adidas-Salomon, Eddie Bauer, Liz Claiborne, Nike, Phillips-Van Heusen, and Reebok Apparel) completed their initial implementation period for requirements set forth by the FLA and in the Monitoring Plan each company submitted upon entering the FLA. In recognition of this achievement, the compliance programs of these six companies were accredited by the FLA.

Category B Licensees commit to implement the FLA Code of Conduct *in the factories where they produce licensed goods for FLA College or University Affiliates*. The thirteen companies in this category included in the report produce a range of collegiate products ranging from apparel to paper products to commemorative jewelry. The Category B Licensees included in the FLA's 2005 Annual Public Report are:

- 1) American Pad and Paper, LLC
- 2) Commemorative Brands, Inc.
- 3) Cutter & Buck, Inc.
- 4) Drew Pearson Marketing
- 5) Global Accessories, Inc.
- 6) Herff Jones, Inc.
- 7) Jostens, Inc.
- 8) MBI, Inc.
- 9) Oxford Industries, Inc.
- 10) Riddell, Inc.
- 11) Russell Athletic
- 12) Twins Enterprise, Inc.
- 13) VF Corporation

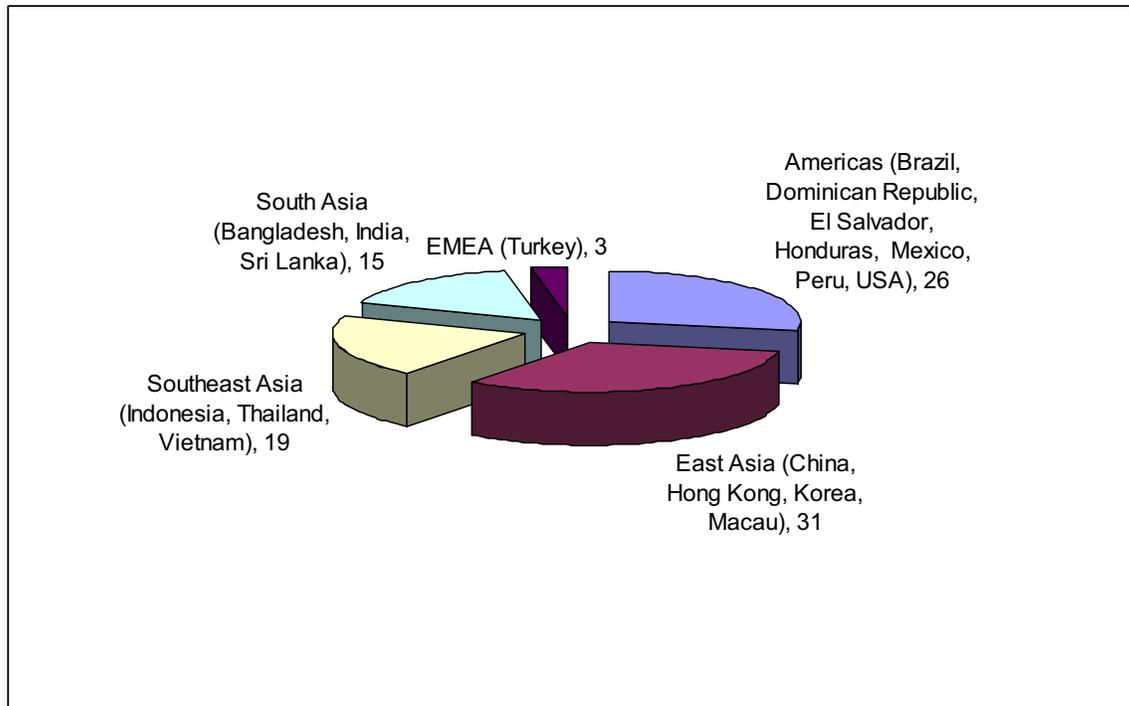
FLA Independent External Monitoring

In 2004, the FLA conducted unannounced independent external monitoring (IEM) visits to 94 facilities worldwide, representing at least 3.3 percent of each affiliated company's applicable factory base in high-risk regions. The FLA uses independent external monitoring (IEM) to assess company compliance with FLA obligations. The FLA selects

the monitors, and does not give companies or factories advance notice of the time or location of these monitoring visits.

The 2004 IEMs were conducted in 18 countries, with the greatest number occurring in East Asia (31) and the Americas (26); followed by South East Asia (19); South Asia (15); and Europe, the Middle East, and Africa (EMEA) (3).

Figure 1: FLA IEMs in 2004 – Regional Distribution

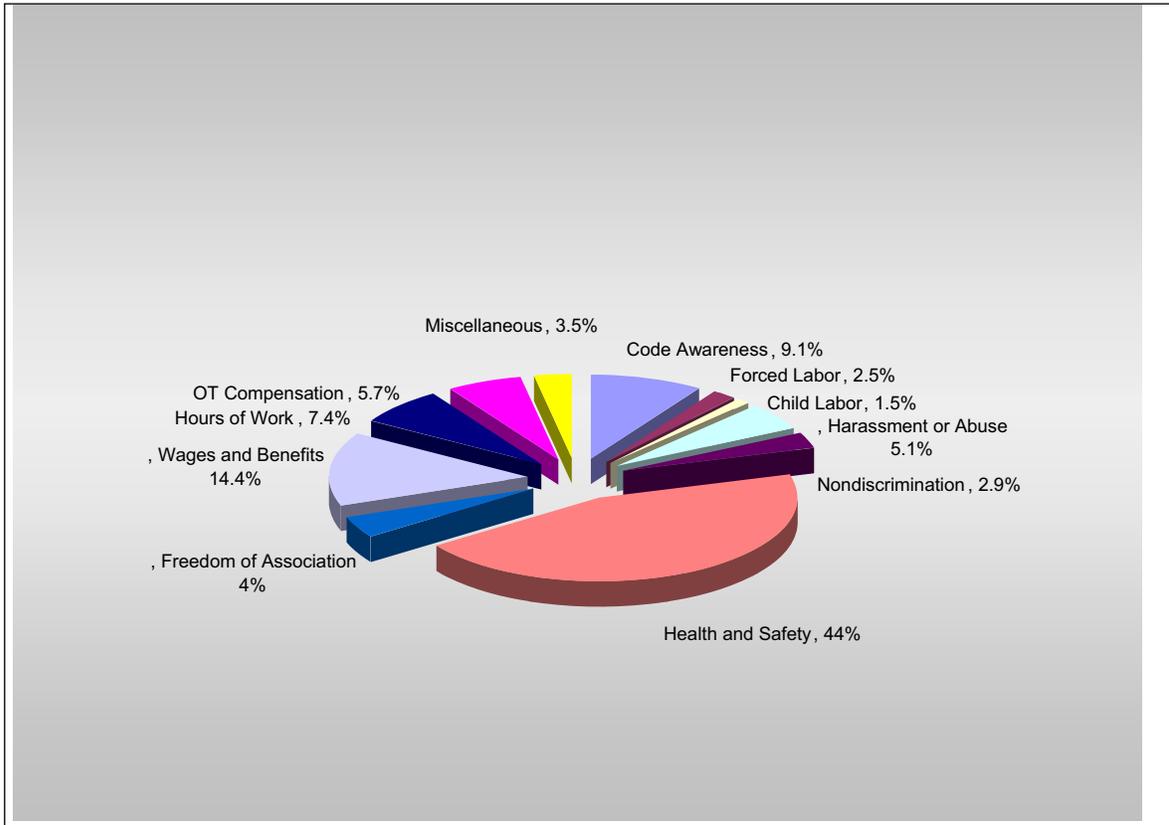


FLA companies are obligated to conduct internal monitoring and remediate noncompliances found in its supply chain. The FLA process requires companies to work with their suppliers to develop a remediation plan within 60 days, at which point the company must report the correction of the issue back to the FLA. The FLA evaluates the company's remediation plan, advises it on necessary actions, collects evidence, and, when deemed necessary by FLA staff, conducts a follow-up visit to verify that the company has taken the necessary steps to remediate the noncompliance issue.

The 2005 Annual Public Report examines the results of 88 of the 94 IEM visits that were conducted in 2004 (full information on the remaining six was not available at the time of publication). Overall, 1,603 noncompliance issues were observed by monitors and reported to the FLA in the context of the 88 IEMs. Most of the instances of noncompliance (44.0 percent) corresponded to FLA Code benchmarks associated with the Health and Safety Code element; followed by Wages and Benefits; Hours of Work; and Overtime Compensation combined (27.5 percent); Code Awareness (9.1 percent); Harassment or Abuse (5.1 percent); Freedom of Association (4.0 percent); Nondiscrimination (2.9 percent); Forced Labor (2.5 percent); Child Labor (1.5 percent);

and Miscellaneous (3.5 percent). It is important to note that noncompliance with a benchmark associated with a Code Element may reflect a technical violation regarding a labor compliance process rather than a substantive violation of a labor standard.

Figure 2: FLA 2004 IEM Findings by Code Element



Third Party Complaints

The FLA's Third Party Complaint procedure enables any person or organization to report to the FLA allegations of significant and/or persistent patterns of noncompliance, or an individual incident of serious noncompliance, with the FLA Workplace Code of Conduct in production facilities of FLA-affiliated companies. It functions as a safety valve to ensure that workers in FLA-applicable factories have recourse to address labor rights abuses. A key part of the procedure is the remediation process to address the problem and prevent future instances of noncompliance.

The 2005 Annual Public Report provides case studies of two third party complaints that were brought before the FLA since the previous Annual Public Report. The case studies illustrate the challenges protecting worker rights and ensuring Code compliance around the world and the possibilities for multi-stakeholder solutions. The two case studies relate to (1) a facility owned and operated by Gildan in Honduras; and (2) a facility contracted by Nike in Thailand, with both cases concerning the right to freedom of association.

Special Projects

The FLA has developed a number of special projects to help address systemic noncompliance issues that have proven particularly difficult to remediate on a factory-by-factory basis. The projects seek to involve a wide range of stakeholders in testing and introducing new strategies to improve Code compliance. The Special Projects described in the 2005 Annual Public Report fall into three categories:

- Projects that test approaches to address the root causes of noncompliance. The focus areas of pilot projects under this category include: hours of work in China; labor relations and human resource management systems; discrimination, harassment, abuse, and freedom of association in Central America's maquila sector; and freedom of association.
- Projects that entail collaboration with other multi-stakeholder initiatives. In this regard, the Report describes the work of the Joint Initiative on Corporate Accountability and Workers' Rights (Jo-In).
- Projects that address strategic compliance issues in FLA company supply chains such as the Soccer project, which focuses on compliance concerns in the manufacture of soccer products.

The Expiration of the Multi-Fibre Arrangement (MFA) and Its Consequences for Global Labor Standards

A special chapter in the Report that explores how the end of the quota system in textile and clothing (T&C) trade under the Multi-Fibre Arrangement (MFA) in particular, and geographic shifts in production more generally, might affect labor rights – both in individual countries and world-wide – and the FLA response to this new environment. This is a very important topic because when the quotas were eliminated on January 1, 2005, many foresaw a "doom-and-gloom" scenario, in which U.S. and EU markets would be flooded by cheap Chinese imports, while hundreds of thousands of workers lost their jobs in countries that could no longer compete with China.

The chapter argues that, contrary to popular belief, China is not the cheapest location. China's export strength goes beyond nominal wage costs and to additional factors such as a large and acquiescent labor force, an undervalued currency, government investment in the industry, near self-sufficiency in the raw materials required for textile production, advanced business networks, and good shipping connections. China provides an example of a country characterized by both widespread non-observance of the labor law and increasing efforts to improve standards.

- The inconsistent enforcement of labor law has left certain sectors and groups of workers exposed to abuses.

- China adopted a general Labor Law in 1994 and more recently promulgated two pieces of legislation that could facilitate the development of democratic structures to represent workers in consultations and negotiation, although its legal structure still limits freedom of association.

The FLA and its constituents are actively engaged in ensuring compliance with the FLA Workplace Code in China. The requirements in China are the same as anywhere else: install the code, make workers and managers aware of it, conduct regular internal monitoring to identify and address compliance issues, and submit to independent external monitoring of a random sample of factories to check whether the compliance system is working.

With the manufacturing center-of-gravity shifting to China, many commentators conclude that the “race to the bottom” in terms of labor standards has accelerated. This conclusion appears to be too hasty, for a number of reasons.

- First, FLA monitoring results show that China is no closer to the bottom than a number of other sourcing destinations.
- Second, whereas a number of the other key sourcing countries or regions are characterized by defunct or failed systems of regulation, the Chinese government is still actively seeking to improve its system of labor market regulation and labor law enforcement.

China is likely to continue to take measures to improve labor relations and working conditions. According to the chapter’s authors, that is not to say that the measures will all be implemented or effective, nor that the movement will all be forward. The history of the opening-up process in China has been one of experimentation and innovation in the economic realm, coupled with extreme prudence in the political realm. All the indications are that this remains the course chosen by the authorities. If so, there is likely to be further controversy about the pace and direction of political change, even if the economic changes continue to progress.